The ‘China model’ and the global crisis: from Friedrich List to a Chinese mode of governance?

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Over 300 years since Adam Smith developed the ‘scientific’ study of political economy with the publication of what became known as *The wealth of nations,* debates over the relationship between states and markets that inspired Smith remain at the heart of the study of international political economy (IPE). Moreover, in the wake of the economic crises that began to shake the world in 2008, the relationship has once more become central in policy debates over the most effective forms of economic governance within individual economies/states, over forms of trans-national governance and regulation, and over the very nature of the global order itself. In the process, interest has grown in the possibility of an emerging Chinese alternative to what had become dominant (neo-)liberal modes of development and governance—a ‘Beijing Consensus’ or a ‘China model’—and whether this might ‘undo much of the progress that has been made on democracy and governance’ in the developing world.²

This article first traces the emergence of China model discourses and then outlines the dominant recurring trends in these discussions. It argues that the idea of a distinct and unique China model is in some ways misleading. If the China model is thought of as being abnormal and deviating from the dominant norm of (neo-)liberal development (as it is in some areas), then this simply ignores the normality of strong state developmentalism over history. By essentially extending Chang’s analysis in *Kicking away the ladder,*³ the aim here is to locate the contemporary Chinese developmental/governance experience in a longer-term historical perspective. When this is done, the Chinese ‘model’, while clearly having unique and country-specific features, can be seen as a variant of a relatively well-trodden statist development path, less peculiar or atypical than appears at first sight.

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Indeed, it seems to be influenced, albeit indirectly, by one of the main critiques of Smith’s ideas in the shape of Friedrich List’s _The national system of political economy_.

Moreover, if we focus on what really is distinctly Chinese about this model, it appears doubtful whether other developing states have the same conditions, factor endowments and social and historical backgrounds to be able to emulate what China has done.

Despite all this, China provides an important example of an alternative to the neo-liberal project that had come to dominate developmental discourses in the first part of the millennium—particularly as state-led alternatives seem to had been somewhat undermined by the Asian crisis of 1997. So perhaps what China offers is not so much a ‘model’ as an example to others of what can be done, and an example of other ways of doing things (as well as an alternative economic partner). Or perhaps China acts as a metaphor for ‘difference’—a different way of developing from what had become the mainstream agenda, and a different understanding of the way the global order should be constructed and international relations conducted. In this respect, what the China model _is_—what it actually entails—is less important than what it _is not_.

This ‘negative’ definition is also important in creating a form of Occidentalism, whereby an image of what the West is and stands for is constructed to emphasize how China is ‘different’. This is used to help explain why China will behave differently from previous Great Powers, particularly in its dealings with (other) developing states. It feeds into, and is itself fed by, an emerging sense of ‘Chinese exceptionalism’—an idea that China is fundamentally different from other countries, with some sort of global duty and responsibility to promote an alternative to the dominant global order.

For some Chinese scholars, this emerging discourse and the idea of a China model are not only mutually reinforcing but also, together, helpful in reinforcing the status quo in China. Crucially, those foreign scholars who have championed the China model are seen as contributing to this ‘project’. Thus, in terms of both Chinese power in the global system and the existing distribution of power within China, the ‘China model’ can be thought of as a speech act—talking of it, and defining it in a specific way, makes it real and gives it real power.

### The emergence of the China model discourse

As we shall see, there has been considerable interest within China in the nature of any China model (and indeed in whether any such model exists). But in many respects, the idea of a Chinese alternative to the West has been driven by foreign observers of China’s global influence. Often intertwined with early impressions of Chinese ‘soft power’, such perceptions were expressed by those who saw the

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emergence of Chinese ideas and practices that might reconfigure power relationships in such a way as to undermine the position of the United States in East Asia and Africa, and ultimately to challenge both the political (liberal democratic) and economic (neo-liberal) bases of the global order. In short, the (neo-)liberal model of development was under threat, and Fukuyama’s claim that ‘liberal democracy remains the only coherent political aspiration’ seemed challenged by the emergence of China’s politically illiberal strong state capitalism, and the desire of some to emulate it.

But it was a very different foreign identification of a Chinese alternative that really set the agenda. First aired in an opinion piece in the Financial Times in May 2004, and in a widely circulated pamphlet produced by the Foreign Policy Centre in London the same year, Joshua Ramo’s identification of a ‘Beijing Consensus’ seemed to catch a popular mood. This was not an entirely laudatory assessment: Ramo noted the ‘existing contradictions of reform’ and the urgent need to move to a new development mode. Indeed, many of the policies Ramo identified as being attractive to others were being promoted by the then Chinese leadership as means of overcoming these contradictions. So when Ramo spoke of the Beijing Consensus as characterized by innovation and a commitment to equitable growth, this should be taken more as a sign of what the leadership wanted the development strategy to become in the future than as an outline of what it already was. Indeed, in a number of respects, it remains more of an aspiration than a reality even today.

Nevertheless, while acknowledging that the Beijing Consensus was not problem-free, Ramo’s assessment contained strong elements of admiration and did much to spark debates over the nature of this Chinese alternative. This included generating discussion within China itself about the nature of the ‘Beijing Gongshi’ and its difference from the dominant Washington Consensus. In more recent years, the focus on gongshi has tended to be overshadowed by the rise of new terms to describe what Qian Gang calls a ‘discourse of greatness’ (shengshi huayu). Of these, the idea of a ‘China model’ (zhongguo moshi) has emerged as the most often used. Qian Gang’s analysis also shows how interest in the China


9 Joshua Cooper Ramo, ‘China has discovered its own economic consensus’, Financial Times, 8 May 2004.


11 Ramo, ‘China has discovered its own economic consensus’.


14 A collection of 106 papers discussing and defining this model held by the China Elections and Governance project has been particularly useful in developing this article. I have grouped these together for ease of access via http://tinyurl.com/chinamodel.
model really took off in China in 2009—which brings us to the importance of the global crisis in accelerating interest in identifying what the model actually is, and its implications for the global order.15

The model and the crisis

Somewhat ironically, just as more people seemed to be identifying a Chinese alternative—sometimes with glee, sometimes in fear—that others might follow, from mid-2004 the nature of this model came under increasingly critical scrutiny within China itself. The party’s verdict on its own ruling capacity (zhizheng nengli) at the fourth plenum of the 16th Central Committee painted a picture of a strained relationship between the party and the people and of an unsustainable growth model that urgently needed to be replaced by a ‘scientific’ economic paradigm focusing on development rather than just growth.16 This apparent contradiction between external perceptions of a system that seemed to many inside China to have (at best) reached the limits of its usefulness, and the recognition within the country of the need to identify a new developmental model, was brought into sharper focus by the global economic crisis.

Ding Xueliang argues that the crisis illuminated the model’s ‘chronic illness’, including its dependence on exports and the extent to which government (including, in particular, local governments) was prepared to sacrifice long-term rational development and the environment for short-term social stability.17 For Yao Yang, the crisis marked the ‘end of the Beijing consensus’,18 and seems to have reinforced a growing belief that China needed to undertake a paradigm shift to a new mode of growth based more on domestic household consumption and less on investment and exports.19

These remain very real concerns. Nevertheless, the resounding consequence of not just China’s performance during and after the crisis, but also the comparative fate of those states that had been championing the western liberal mode, was to accelerate interest in thinking about the China model. And for very good reasons. China had not only survived the 2008 crisis relatively intact—albeit through massive government spending and an even more massive extension of bank loans—but had also fared well in the Asian crisis of 1997. As The Economist put it in its preamble to

15 We should note, however, that this was the 60th anniversary of the PRC and that Pan Wei’s book on the six decades of CCP rule was called The China model, which may also have had an impact on the spread of the term as people commented on this book. See Pan Wei, ed., Zhongguo moshi: jiedu renmin gongheguo 60nian [The China model: understanding 60 years of the People’s Republic of China] (Beijing: Central Translation Press, 2009).


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an online debate asking whether China represented a better development model than the West (a motion that was defeated 42–58). ‘The global financial crisis exposed critical weaknesses in western economies. China, by contrast, suffered only a brief slowdown in its fast-paced growth before surging back into double-digit expansion.’ Not surprisingly, policy elites in other countries sought to identify the causes of this success and ways in which they might emulate it. In specific terms, attention focused on the relative lack of financial liberalization in China and the development of large foreign currency reserves to act as a bulwark against global shocks. More generally, China’s economic performance re-legitimized state developmentalism, and re-empowered those proponents of strong state models (who had been subdued after the Asian crisis) in their battles against proponents of (neo-)liberal approaches across Asia.

The crisis also helped accelerate shifting patterns of economic interaction and the changing balance of economic power. There was increased activity in Chinese relations with Asia, Africa and Latin America, with Chinese demand playing a key role in helping countries such as Brazil recover from the decline in demand in North America and Europe. China also emerged as a key player in any attempt to create new mechanisms of global governance—whether in partnership with the existing global powers through the G20 and reform of the IMF, or in new ‘blocs’ like the BRICs.

The hope that domestic demand in China might lead the world out of recession was matched in some quarters by a concern with what this shift might mean for the balance of global power. This was not eased by the call from the Governor of the People’s Bank of China for an end to the dollar’s status as the world’s reserve currency, or an online article suggesting that China should use its foreign currency reserves to cause economic problems in the United States, widely reported and circulated outside China as a reason for fearing China’s growing financial clout. By the end of 2009 there seemed to be a general feeling within China that it was returning to its rightful place of centrality in the global order, and that its developmental model had been vindicated. In this respect, Pan Wei

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25 This piece was posted on the Qiushi discussion page and was erroneously credited with being published in the Qiushi journal, which is the official theoretical journal of the CCP. It was thus mistakenly taken to represent official policy. Xu Yunhong, ‘Zhongguo yingdui meiguo duihua ezhi qingxiang zhengce de zhanlue’ [China’s strategy in response to the US containment policy towards China], Qiushi Lilun Wang [Qiushi Theory Network], 10 Dec. 2010, http://www.qstheory.cn/lyzl/201012/t20101210_59023.htm, accessed 4 Jan. 2011.
argues that what happened in 2009 was ‘more like a movement of cultural renais-
sance than a debate on the China model itself’—that is, that the content of the
model was secondary to the importance of China’s success.26

What is the China model?

As will be discussed later, this article shares Pan Wei’s understanding that the
idea of a China model is more important as a symbol or a metaphor than as a
distinct and coherent model that might provide a clear guide for development
elsewhere. And as the above-mentioned Economist debate put it in a rather under-
stated manner, ‘there is disagreement over what the key ingredients of this model
might be’.27 Too true. But we can at least try to pull out some of the main recur-
ing themes in the various writings and thinking on the China model—perhaps
to find different varieties of thinking rather than a single consensus.

Part of the problem in identifying the components of any such model is the
huge diversity of developmental trajectories within China itself. To talk of a single
Chinese model misses the huge variety—the different models—of economic
structures within China.28 The political economy of Zhejiang, where small-scale
private industry dominates, is somewhat different from the more mercantile
political economies of Chongqing and Shanxi, which are different again from
social norms in Henan that have some links with China’s Marxist/Maoist past.29
Notably, even areas that on the face of it are very similar in terms of industrial
background, rural-industrial mix and natural endowments, have adopted remark-
ably different development/growth strategies.30

However, while this diversity might seem to pose a problem in homing in on
a ‘model’, it actually points us towards what is perhaps the single most impor-
tant feature. This is what Yao Yang called the ‘pragmatism’ (wushi zhuyi) pursued
by a ‘neutral’ or ‘disinterested’ government (zhongxing zhengfu) that is simply
concerned with doing what works in the long term and is not driven by any plan,
blueprint, ideological commitment or societal bias.31 For most observers, it is this
experimentation and non-ideological (perhaps even de-ideologized) commitment
to doing whatever it takes to promote growth while maintaining political stability

26 Pan Wei, ‘Western system versus Chinese system’, University of Nottingham Contemporary China Centre
27 ‘China model’, The Economist.
28 Wang Shaoguang argues that this is one of the key strengths of policy reform in China—not just in the
current era, but under Mao as well. But the key difference now, in comparison to previous eras, is the much
more open and plural political system that allows a variety of different voices to be heard and is unrestrained
by ‘political correctness’, there being no longer any need to prove revolutionary credentials. See Wang
Shaoguang, ‘Adapting by learning: the evolution of China’s rural health care financing’, Modern China 35: 4,
29 I am grateful to Wang Zhengyi for these comments and ideas communicated through discussions in Beijing
in 2009 and 2010.
30 John Donaldson, ‘Why do similar areas adopt different developmental strategies? A study of two puzzling
31 Yao Yang, ‘Shifou cunzai yige zhongguo moshi’ [Is there a China model?], Tianyi Network, 8 March 2008,
translation in email communication with the author.

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that is the defining hallmark of the Chinese mode of governance. It has perhaps been best defined by Heilmann: ‘The key to understanding the adaptability of China’s political economy over the last few decades lies in the unusual combination of extensive policy experimentation with long-term policy prioritization.’

The regime has ‘localised’ the experiences of other countries, and selectively chosen what seems to work best for China.

This state-led experimentation (or devolved state-led experimentation) has caused the Chinese experience to be characterized by ‘gradualism’ (jianjinxing) alongside ‘autonomy’ (zizhuxing) and strong government (qiangzhengfu).

Crucially here, thinking about what China has done and what China might stand for is defined in opposition to what others have done (that China has not). So gradualism, as Sun Liping argues, is something that in itself is not particularly remarkable: you can do many things (good and bad) in many areas gradually. But this gradualism stands in stark contrast to the ‘shock therapy’ that was the main modus operandi in the transition from socialism elsewhere, and the reform strategy of choice of the global neo-liberal institutions (which also denied autonomy to those on whom it was imposed). Gradualism in China had also occurred under conditions of ‘regime stability’, which again stands in stark contrast to the collapse of some regimes and even the disappearance of some states in other parts of the once communist world.

Although China has become integrated into the global economy, it is often seen as having done so on its own terms. This might seem a little strange, given the fairly widely repeated criticisms in China (particularly but not only around China’s entry into the World Trade Organization in 2001) that national interests have been overridden by powerful interests in the capitalist global economy.

Nevertheless, there is a relatively strong emphasis in the China model literature on the way China has used foreign trade and investment where beneficial and given significant support to its exporters, while resisting competition in the domestic market where it might damage domestic economic actors. Cao terms this a ‘managed’ process of re-engagement with the global economy, or a state-led engagement with globalization with a ‘nationalist tinge’, where radical economic change has often been justified as being in ‘the national interest’.

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34 Along with the ‘correct’ visionary policies of Deng Xiaoping. See Ma Depu, Jianjinxing, zizhuxing yu qiangzhengfu—fenxi zhongguo gaige moshi de zhengzhi shijiao [Incrementalism, autonomy and strong government: a political analysis of China’s reform model], Dangshi Bocai, no. 5, 2005, pp. 19–23. This is one of the earliest attempts I have found in Chinese at defining the Chinese model.


36 Including calls to pay less attention to Adam Smith and to consider the national political economy of List more seriously. See Han Deqiang, Pengzhuang: guandang jianshi yu zhengguo xianzhi xuanze [Collision: the globalisation trap and China’s real choice] (Beijing: Economic Management Press, 2000).

Strong government and stability together form the political basis of a number of characterizations of the China model. Once more bearing in mind the comparison between what China is and the experiences of others (and what China is not), identifications of the China model seem often to go no further than simply describing high levels of growth and partial economic liberalization achieved without fundamental democratization and political liberalization. As Zhao puts it, ‘the China model … is often in a shorthand way described as a combination of economic freedom and political oppression’.38 Within the Chinese literature, the focus on stability is striking. Indeed, stability ‘takes precedence’ because the Chinese people’s fear of chaos has become something akin to a ‘collective psychology’.39 Indeed, it is the basic starting point from which everything else follows—the assumption that there will be no development at all, let alone a ‘model’, without stability—which creates a ‘gradualist’ virtuous circle of policy-making. Stability is the first priority of government. This then allows for development, which requires the reform of the existing system. Such reform becomes institutionalized through the necessary laws, institutions, rules and so on, which in turn enhance political stability, which then allows for further development, and so on. This is all predicated on strong government and a strong state making the right decisions and choices.40

This process of gradualism, experimentation, managed globalization and a strong state has allowed for a sequencing of reforms that has served China well:41 a first wave built on the liberalization of production that spurred an explosion of small-scale enterprises which then played a key role in the second wave of growth built on exports. It has also resulted in a mix of market and state that is the final main recurring theme in the various writings on the model—particularly (but not only) in external observations and assessments in the financial press. For example, in searching for some basis for a debate on what the Chinese model might actually be, *The Economist* suggested the following main features: ‘a managed exchange rate, state control over key industries including the banking system, preference for diktat rather than democratic debate, heavy state investment in infrastructure and strong support for the export sector’.42 Similarly, in an overview for the *Financial Times* of the results of the liberalization process in China, Kroeber and Yao concluded that ‘economic power remains firmly concentrated in the hands of the state’.43 The idea of strong statist control of the economy has also been reinforced by the way in which China’s elites responded to the global crisis, mobilizing economic resources to surpass the target of 8 per cent growth in ways that eluded governments in other parts of the world.

40 Discussions with Jia Qingguo, Beijing University, Feb. 2009.
41 Zhang Weixi, ‘Analysis of a miracle’.
42 ‘China model’, *The Economist*.
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Of course, China has not simply remained an unreformed state-planned economy; far from it. Indeed, in its version of the Chinese model, the World Food Programme points to policy-makers creating a space for the market as the key factor behind China’s success in combating hunger—albeit a gradual introduction ‘to smooth the transition’. Huang Yasheng argues that there have been two China models: that the statist one has emerged only quite recently and that it was the first one, built on liberalization and the emergence of private sector activity (particularly in township and village enterprises), that laid the foundations for China’s successes. And for a group of scholars in China who focus on the negative, rather than positive, consequences of reform, privatization, the transition to the market, insertion into the global capitalist economy and the lack of state control are seen as the main sources of China’s problems, rather than the root of any sort of miracle.

Huang’s consideration of the changing nature of the model over time offers some help in reconciling the apparent contradiction between the strong statist and liberalization approaches. But so too does thinking again about what China’s reform has not done and what China is not (rather than about what it is and has done). Compared to what it was in the past, the Chinese economy is much more liberal and market-oriented today. But compared to some other developing states, former Communist Party states and the perceived diktats of the Washington Consensus, the key is the incomplete nature of its liberalization (particularly in financial and currency reforms), notably the use of banks to support priority industries and the way in which the state sector continues to dominate the commanding heights of the national economy while allowing a role for ‘hybrid local and foreign firms’ and small-scale capitalist activity.

How Chinese is the China model?

While the Chinese experience is clearly unique, drawing from a specific and particular set of circumstances, is it uniquely unique? The concept of a strong state controlling economic activity through the strategic use of finances and pursuing asymmetric integration with the global economy to generate export-led growth sounds somewhat familiar—not least to students of development in other parts of Asia. To be sure, there are many differences. The level of direct state control is probably stronger in China today than it was in South Korea, for example, where the chaebols created an extra level or layer of authority between state and market. Conversely, the power of the central state may be somewhat less in China today than it was in previous cases, with the local governments playing a stronger role as agents of

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45 Yasheng Huang, ‘Rethinking the Beijing Consensus’, Asia Policy, no. 11, 2011, pp. 1–26.
state developmentalism. History matters, and China’s history is obviously its own and by definition unique. The global context is also important, and much has changed since the Cold War, which was such an important factor in the building of relations with the United States for Taiwan and South Korea. And of course the sheer size and scale of China mark it out as being different from anything we have seen before.

Nevertheless, echoes of what happened in other parts of Asia in previous decades led Peerenboom to call his chapter on the Chinese developmental model ‘Déjà vu all over again’. Scott Kennedy makes the point more forcefully than most, largely through his dismissal of Ramo’s assertion that innovation has been a key pillar of China’s developmental successes: ‘The intellectual source for most of China’s economic reforms has been the experiences of other countries, and China’s experts and officials have closely examined and borrowed from elsewhere. Ramo would have been closer to the mark if he said China was following in the footsteps of other developmental states.’ The idea that the Chinese experience has at least something in common with previous developmental states in Asia is widely accepted within China as well. However, while there has been considerable debate in China over the extent to which the country’s own experience formed part of a wider East Asian model, there is a growing consensus that there really is something that is both independent and different. In this respect, ‘Ramo’s Beijing Consensus played a key role in establishing the uniqueness of the Chinese development model,’ and we might suggest that the crisis and its consequences have reinforced this trend.

In some respects, debating whether there is or is not a China model is irrelevant—as will be discussed below, if people think there is a China model and then act accordingly, this itself makes the model exist. But debating the genealogy of models is more than just an exercise in semantics. If the China model is thought of as being something new and different, this might suggest that it represents a distinctive deviation from the ‘norm’; that it is abnormal. But if China is simply another example of strong state developmentalism, then what is normal and wherein lies the deviation?

The political economy of Friedrich List

It is here that we return to the debate over states and markets identified in the introduction, and the importance of List’s critique of free trade and Adam Smith. List is often referred to as a mercantilist, but in many respects this is a miscasting of his position. List did not want to return to the mercantilism that Adam Smith had attacked in *The wealth of nations*. In the preface to *The national system of political economy*, Friedrich List writes:

> It is here that we return to the debate over states and markets identified in the introduction, and the importance of List’s critique of free trade and Adam Smith. List is often referred to as a mercantilist, but in many respects this is a miscasting of his position. List did not want to return to the mercantilism that Adam Smith had attacked in *The wealth of nations*. In the preface to *The national system of political economy*, Friedrich List writes:


Young Nam Cho and Jong Ho Jeong, ‘China’s soft power’, *Asia Survey* 48: 3, p. 464.
economy (1841), he responded to accusations that he was trying to revive mercantilism by arguing that he was attempting to establish a new approach that kept the good parts of mercantilism but jettisoned its failings. Indeed, though much of his work specifically focuses on what he sees as the problems with Smith, he was in many ways an admirer. Smith, after all, had been the first person to undertake a comprehensive study of this kind and was the originator of the science of political economy. Rather than simply rejecting Smith, he wanted to build on his ideas and take them further, and in particular to ‘politicize’ what he thought was a purely economistic approach that was not informed by the concrete political realities of the actual world. Mathematical theories require simplicity to work, and in the case of Smith require a cosmopolitical perspective where individuals act within a single global economic entity.

For List this was all well and good in theory, but the reality of the actual world was rather different. In the real world, economies are ‘national’ and each government must decide what is best for the nation in competition with other rival national political economies—and what is best for the nation might not be what is best for individuals. Thus, for example, if the nation as a whole benefited from the development of a canal system to build a national infrastructure, then this should be promoted (and funded) by the state even though the interests of some would be harmed by this development. Quite simply, the interests of the individual were less important than those of the nation, and the government had to guide and lead economic activity in pursuit of long-term national interests—not by intervening in daily economic life, but through strategic intervention.

For List, Smith had paid too much attention to exchange in his cosmopolitical world, and not enough to production. But in thinking about production, List went beyond the mercantilist emphasis on ‘natural capital’ (land, sea, rivers, mineral resources and so on) to include ‘material capital’ (machines, tools and other factors used in the production process) and ‘mental capital’, which included skills, training and enterprise as well as the more traditional tools of state power (armies, naval power and so on).52 A key role for governments was to consider what would create wealth in the future—how to support and promote scientific discoveries, advances in technology, improvements in transport, the provision of educational facilities and so on. It also entailed governments providing the environment within which these advancements could occur—most clearly through the maintenance of law and order. All other things being equal, the more time and money that any government devotes to mental capital, then the more successful the nation will be in the long run.

But it is not just in developing national strength that economics was political: for List, the promotion of free trade was political in itself. In his view, ‘the English were the greatest bullies and good-for-nothing characters in Europe’.53

Their supremacy as an industrial power put Britain in a position to exploit its comparative advantage through the promotion of free trade with those areas that simply could not compete. But where Britain did not have a comparative advantage it threw away its *laissez-faire* ideology and instead resorted to high tariffs to defend domestic producers. As a result, German states had been unable to move forward and compete with the dominant power.

As a result, there was little to no evidence of the benefits of free trade as a means of promoting development: rather, it was during times when there was a lack of free trade that German producers had prospered—most notably during the Napoleonic Continental System, where a European blockade on imports from Britain (including its colonies) created a space for domestic industries to grow. Though the end of the Continental System in 1812–13 brought back a flood of cheap British goods into Europe, List was convinced about the benefits of a large internal unified market protected from more powerful competitors (and also convinced about the importance of a strong army and in particular a strong navy to support economic interests through military force). Thus, the evidence pointed to the importance of protecting infant industries and of the state-led promotion of industrial innovation, transport and infrastructure, education and so on. The state should also provide stability and legality, and invest in harder military sources of power (essentially armies). This was not a rejection of trade per se, but rather a rejection of the idea that any trade could really be ‘free trade’, as all forms of trade entailed unequal and asymmetric power relations.

In addition to being a theorist, List was also politically active as a proponent of a unified German state. In 1825 he was imprisoned and then exiled for his political views (under the guise of corruption charges), and it was in the United States that he found new evidence to support his emerging ideas. List was particularly impressed by the ‘American System’ first established by Alexander Hamilton, and at the time supported and promoted by John Quincy Adams and Henry Clay. This ‘system’ entailed the creation of a national bank and sovereign credit to enable the government to guide development; the active promotion of agriculture, industry and science to integrate or ‘harmonize’ the three domains into a single economic structure; continental integration through government-funded infrastructure developments; and high public land prices and external tariffs (notably the ‘Abominable Tariff’ of 1828) to raise income for government projects and also to protect domestic producers from competition from more developed states. Moreover, the proponents of the American System shared List’s view that the promotion of free trade was simply a tool of national power—real free trade ‘never has existed, it never will’.54 For Clay, the whole basis of taxation in the United States from 4 July 1789 onwards (apart from paying the debts incurred in wars) was, in the words of the country’s second ever statute, for ‘the encouragement and protection of manufactures’.55

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We might suggest, then, that the United States was the first ‘capitalist developmental state’. And just as the nascent American System played a key role in aiding development in the United States, so the Bismarckian project that subsequently built on List’s ideas propelled Germany to centrality in Europe. This success influenced the ideas of Toshimichi Okubo, who placed ‘learning from Germany’ at the heart of the renaissance of the post-Meiji Japanese economy; a process that outlived him and indeed accelerated after his assassination in 1878.\footnote{Iwata Masukazu, *Okubo Toshimichi: the Bismarck of Japan* (Berkeley: University of California Press, 1964).} While somewhat modified by the experiences of the Second World War and indeed the aftermath of the war, these ideas were again to play some part in influencing Japanese development from the 1960s, and subsequently the capitalist developmental states in East Asia in the 1970s and 1980s.\footnote{It might also be worth mentioning here that at various points after the Second World War the North Korean and Romanian economies were the fastest growing in the world, and that the reconstruction of Europe owed more to planning than to free markets.} Here, of course, state-led development and protectionism were much aided by the geostrategic context of the Cold War, which meant that the United States not only tolerated protectionism and state-led development in Taiwan and South Korea, but largely funded it—partly through aid and military protection, and partly by allowing unprecedented access to the US market without seeking reciprocal market access and liberalization.\footnote{Bruce Cumings, ‘The origins and development of the Northeast Asia political economy: industrial sectors, product cycles and political consequences’, *International Organization* 38: 1, Winter 1984, pp. 1–22.}

Strange bedfellows? The left and List

The point of this discussion of earlier developmental states is not to praise them as perfect alternatives to the liberal model. The search for alternatives to neo-liberalism can also result in some strange alliances—a form of ideational *realpolitik* where anything that is oppositional to neo-liberalism is ‘my enemy’s enemy’ and therefore my friend. But List was above everything else a nationalist and not an internationalist; a nationalist who was committed to doing what he thought was best for what was to become modern Germany. He was committed to the creation of a strong army and a strong state to defend the national interests in a hostile international environment. Moreover, the national project was the end, and the mobilization of the people a means to that end. For Marx, List was ‘a true German philistine’ who (at best) misunderstood Ricardo and the nature of labour, thinking of workers as units of production to be deployed and mobilized to provide surplus for the (German) bourgeoisie.\footnote{Karl Marx, unpublished article on Friedrich List’s book *Das nationale System der politischen Ökonomie*, 1845, http://www.marxists.org/archive/marx/works/1845/03/list.htm, accessed 1 June 2009; Karl Marx, *Critique of political economy*, part 1: *The commodity*, 1859, n. 8, http://www.marxists.org/archive/marx/works/1859/critique-pol-economy/ch01.htm, accessed 1 June 2009.}

And it is not just in List himself that seekers for alternatives find their beliefs challenged. Where these ideas have been put into practice, this has typically been done by authoritarian and even anti-democratic governments that organize workers behind a national project—often, if not typically, trampling over workers’
The alternative to neo-liberal capitalism, then, appears to entail the use and abuse of the workers as a means of national generation both in (Listian) theory and in practice. In at least two cases (Germany and Japan), these developmental states have destabilized regional security and ultimately contributed to war. Or, as Ben Selwyn puts it, there is often ‘a disjuncture between the political regimes that neo-Listians aspire to (democratic and liberal) and those they assert are required for high-speed catch-up development (authoritarian)’. As we shall see, this search for alternatives to neo-liberalism has resonance in some of the discussions of the Chinese alternative as well.

So the point, here, is not to laud the Listian developmental state as a solution to all the ills of the liberal project. Rather, it is to point to the continuities between the Chinese model, previous Asian models of state developmentalism, and even earlier European and American ‘systems’ of state-guided development. In this context, it is ahistorical to characterize the China model as representing a deviation from the norm; rather, it is an example of what has been a rather successful mode of industrialization in a number of places for a number of years (in terms of GDP growth achieved, at least). In this respect, rather than thinking in terms of a China model, it is perhaps more correct to talk of a neo-Listian developmental state with Chinese characteristics.

The model is in the eye of the beholder

All this said, if people think that the Chinese model exists, and then develop policies based on their understanding of the Chinese model, then it does exist. And there is evidence to suggest that there are many who really do think that China offers something to learn from. But two caveats and one question are very important here. The first caveat concerns in whose eyes the Chinese model exists. At the risk of oversimplification, it would seem to be more appealing to developmental elites who want to emulate China’s experience of rapid economic growth (while not losing power) than to promoters of democracy, civil societies, opposition parties or even workers in Chinese-run mines and factories or those who cannot compete with cheaper Chinese imports.

The second caveat is to acknowledge that people tend to take what they want out of an experience in building either a positive or a negative view of it. For those who see, for example, the Chinese economic model as a good thing to be copied, the emphasis is on the successes—for example, economic growth, poverty reduction, job creation, a strong state, managed globalization on China’s terms. This is understandable. But for each of these successes it is possible to see a negative side—the impact on the environment, the quality of jobs and conditions for workers, growing inequality, poor access to health education and welfare, corruption, dependence on the global economy and so on. Of course, this tension between positive and negative is not confined to China; one could say similar

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things about the 'American dream'. But both the most laudatory and the most negative assessments of the China model do tend to be rather partial in their nature.

For Yang Jisheng, the main blame for this partial reading of the Chinese experience lies with western observers who, in their search for alternatives to the neo-liberal orthodoxy, individually and collectively reinforce a ‘conservative’ consensus on China. They do this first by focusing solely on the positive sides of the China story, second, by ignoring the role that the market and liberalization (including political reform short of democratization) has played in generating successes, and third by seeing authoritarianism as an essential component in generating these successes. Talking about the China model in this way, then, both within China and outside it, is a means by which the status quo is reinforced and arguments proposing the need for political reforms designed to deal with fundamental problems are undermined.

Is the model transferable?

After these two caveats, the question arises whether the model is actually transferable or not. If the model is in the eye of the beholder, then people will simply construct a version of it that fits with their objectives—so in this sense the model (or versions and varieties of the model) can indeed be transferred to different settings. But from another viewpoint there are two key reasons why the model does not look particularly transferable. First, China’s circumstances are so special—not least the simple scale and size of the country—that it is difficult to see how others could do what China has done. For this reason, Zhang Xiaomin prefers to translate moshi as a ‘mode’ of governance as it is not a ‘model’ that can be replicated. Second, in many respects the defining characteristic of the China model is that it should not be considered as providing a specific guide to action or a blueprint for others. One of the major criticisms of neo-liberalism and the Washington Consensus is directed at its attempt to impose a ‘one size fits all’ solution on countries with different structures, systems and needs. Shen and Bai argue that although developed nations are all ‘market economies’ there is no single

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63 Naughton, ‘China’s distinctive system’.

model of what a market economy is or should be. They emerged in different ways because of the different conditions and resources of each nation: for example, the evolution of the German and Japanese capitalist systems and market economies has been very different from the American experience. Diversity is right and natural, and it is the attempt to impose uniformity and ‘indiscriminately copy another country’s model’ that is the problem. Thus, the Latin American economic crisis had its roots in the attempt to emulate the ‘Washington Consensus’ model of free-market capitalism rather than seek development trajectories that suited the concrete circumstances of each Latin American state.65

Accordingly, what China has done is not to follow any other model but to do what is best for itself based on its own conditions. As Pan Wei puts it: ‘[The] China model consists of four sub-systems, they are: a unique way of social organization, a unique way of developing its economy, a unique way of government, and a unique outlook on the world.’66 So the China model isn’t important for others because of the specifics of what has happened in China; rather, it is important for establishing what can be done if other countries do what is best for themselves based on their own concrete circumstances and not simply what they are told to do by others. The key message from the China model is ‘start from national conditions, and take your own road’.67

Thus, the Chinese experience is best thought of as an example of what can be done if you follow your own path (even though not all states share China’s power to act with such relative autonomy) rather than as a model. China is also an alternative: not just an alternative development model, but an alternative economic partner that is happy to deal with other countries with no strings attached—or, more correctly, with few strings attached (not recognizing Taiwan is a pretty important string)—and certainly with no democratizing agenda linked to economic relations. This creates an important space in which the countries it deals with can develop their own indigenous strategies with more autonomy than would be the case if they had no option but to deal with the major western powers. Proactive Chinese policy helps in promoting the idea of China as alternative—both through ‘hard’ initiatives like the cancelling of debt and through ‘softer’ initiatives such as the idea that China treats other developing states as partners (and, by implication, that others don’t).

So what makes dealing with China attractive is not so much a Chinese ‘model’ as the lack of projection of any model. And although it might sound counter-intuitive, not being identified as the promoter of any specific normative position is in itself a normative position. Rather than thinking about what China is, and what China stands for, instead we need to think about what China is not and what China does not stand for: it is not big bang reform and shock therapy; it is not a process where economic liberalization necessarily leads to democratization;

65 Shen Li and Bai Quying, ‘Jiedu zhongguo jingji moshi’ [Analysis of China’s economic model], Guangming Ribao, 15 May 2006.
67 Shen and Bai, ‘Analysis of China’s economic model’.
The ‘China model’ and the global crisis

it is not jettisoning state control over key sectors; it is not full (neo-)liberalization (particularly in financial sectors); it is not the western way of doing things; it is not following a model or a prescription; it is not being told what to do by others; and it is not telling others what to do. China has, moreover, done what it has done despite external pressure to do otherwise, it has managed to survive two crises, and it has not collapsed as foreigners kept predicting that it would.

Towards Occidentalism and exceptionalism

Establishing what something is not requires something for it to be ‘othered’ against. We noted above the role of the recent crisis in changing thinking on the China model: in the words of the creator of the idea of the Washington Consensus himself, ‘A major impact of the crisis has been to discredit Western views of development—what I once tried to summarize under the somewhat unhappy term of the “Washington consensus”—and to fortify what has sometimes been referred to . . . as the “Beijing consensus” instead.’68 So at the moment at least, China does not have to do much to make itself and/or its model look attractive—it can just sit back and let the western model (or models) become increasingly unattractive, indeed repellent. War in Iraq and the selective imposition of western norms through intervention combined with the crisis of neo-liberal capitalism (after a rather arrogant and triumphalist western response to the Asian crisis) is enough to send many looking for an alternative, and finding it in China.

But the Chinese authorities are not simply sitting back and letting this happen: they are actively promoting a preferred idea of what China is and what it stands for in international relations. This entails a form of Occidentalism where images and understandings of ‘the West’ are constructed against which non-western cultures, societies and states identify themselves.69 This does not have to involve an explicit statement of what the other actually is, but can be implied by stating what China represents. For example, saying that China stands for peace and harmony is unremarkable unless others don’t stand for this—and it is implicit in the promotion of a preferred national identity in China that the West doesn’t.

Thus, we see the promotion of a China that is not seeking to impose its worldview on others, and of a power that thinks that each country is free to do what it wants within its own sovereign territory. Its preferred world order is one that allows for plurality, built on China’s historical cultural predilection for harmony, virtue and society and for solving problems peacefully. China is dissatisfied with the existing distribution of power in global institutions and seeks greater representation for the developing world, but it is also a responsible Great Power

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and will not destabilize the world order through seeking to ‘democratize’ it. The implicit other here is an interventionist, hegemonic, materialistic West. In this depiction, the western world order is built on a narrow European history that it seeks not only to assert as the core of global governance, but also to impose on other states. It is even prepared to use coercion and ultimately military force to do so, to solve problems in its favour, and to ensure that its unfair and asymmetric power in the global system is maintained and strengthened. And in order to do so, it depicts China as a threat—a destabilizing force in the global system whose rise should be feared.

Building on this understanding, the idea of China as an inevitable threat to the global order and to the United States in particular is seen as emerging from a way of theorizing international relations that is based only on the experiences of the West. From this point of view, International Relations (IR) theory is not actually international at all, but merely western. There is thus a need to develop theories that reflect China’s own experiences rather than simply taking existing theories and approaches; to create a ‘Chinese School’ that will help explain why China’s rise will be peaceful and not a repeat of the turbulent rise of western powers like Germany.\(^7^0\) This perceived need is reflected in attempts to create Chinese theories of IR, IPE, regional integration and so on. Underpinning this project is the basic idea that China is different—a different sort of state with different values based on different cultural and philosophical traditions that will shape its different behaviour as a Great Power. And to establish this difference, a project is under way to use an eclectic mix of Confucianism and Daoism and the writings of Sunzi and Mencius to create and construct a version of Chinese history that creates a basis for this difference.\(^7^1\)

In his discussion of Zhang Weiwei’s work on the China model, Bandurski sees something that looks akin to the creation of the idea of American exceptionalism.\(^7^2\) Starting from de Tocqueville’s analysis of the exceptional nature of American democracy,\(^7^3\) the idea of the United States as being fundamentally different from other countries rested on its newness—its ability to build a country based on democracy and freedom because it was not constrained by the historical class and societal tensions that held back democracy in other (older) countries. This new democracy was also a shining beacon to other countries— and for some, this meant that the US had a moral duty to spread its correct democratic values across the world, resulting in a foreign policy that Krauthammer called ‘democratic realism’.\(^7^4\)


\(^7^1\) Sheng Ding, The dragon’s hidden wings: how China rises with its soft power (Lanham, MD: Lexington, 2008).


\(^7^3\) Alexis de Tocqueville, Democracy in America (New York: Langley, 1840); free access online version available at http://xroads.virginia.edu/~HYPER/DETOC/soc_index.html, accessed 4 June 2009.

Chinese exceptionalism similarly sees China as fundamentally different from the rest of the world. Zhang Weiwei’s promotion of the idea of China as the world’s only ‘civilization-type nation’ takes us down a road that ends in a situation where ‘no rules apply to China that are not China’s own … only what is quintessentially Chinese can accommodate China’s unique “national circumstances”’. On this understanding, the China model simply must be a unique phenomenon. It is by its very nature abnormal and deviant—not just different from the neo-liberal Washington Consensus, but also fundamentally different from (and separate from) any other type of developmental state that preceded it. It is an entirely separate genus of state and economy from anything else that has ever existed.

Of course, we can question the veracity of a version of history that sees China as a force for peace, harmony and stability. Cohen focuses on China’s international relations and concludes that ‘historically, a strong China has brutalized the weak’. Dirlik similarly questions the pacific nature of its domestic society, delving into the still very sensitive area of periods since 1949 where harmony and peace were distinctly lacking. For Scobell, Chinese policy-makers have convinced themselves that they are guided by a historically inspired ‘cult of defense’ that does not stand up to historical scrutiny and runs counter to the actual basis of military activity both overseas and in domestic politics in the PRC era. But China is far from the only place in the world where preferred versions of history come to be accepted as the truth, or where this truth becomes the basis of a common understanding of the present and the national identity. And how other states identify their values and the importance of spreading them to the rest of the world has had a considerable impact on the lives (and deaths) of many millions around the world.

Nevertheless, this discourse of Chinese exceptionalism and difference has far more than semantic importance. It not only feeds into understandings of China’s place in the world but also has important domestic uses and consequences. It explains why China does not have to follow anything—including any path that sees democratization as an inevitable consequence of economic liberalization. And in this respect, Yang Jisheng sees the promotion of a unique China model as part of a wider project of Occidentalism—though he uses the term ‘anti-westernism’—designed to defend inequality and the political status quo in China. Identifying whether there is a model or not, then, is not just a matter of academic interest, but a question that might have real significance for the way that millions of Chinese live their lives in the future.

75 Bandurski, ‘Zhang vs Yang’.
79 Yang, ‘How I see the China model’.

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Conclusions

The starting point for this article was the argument that state-led approaches to development have been much more influential than the dominant orthodoxy—before the global crisis at least—would seem to suggest. Indeed, when viewed through a historical lens, what has happened recently in China has parallels with previous experiences of strong state-led development in Europe, the United States and East Asia. At best, then, the prescriptions of the Washington Consensus (as they came to be understood during the moment of unipolarity) seem to be ahistorical. For Chang, they represent an attempt to stop others emulating the experience of the first (and later) generations of developmental states, which did not themselves accede to the principles of free trade that they now espouse (and indeed, in many cases still do not practise).80

From this perspective, what has happened in China does not seem particularly remarkable at all. Although we can argue over the specifics, the Chinese experience broadly conforms with a state-led growth project that places national development at the centre of policy, points to the importance of promoting and protecting key economic sectors and actors, and involves using a central financial institution and a form of (at least) soft planning as the means of national construction and economic development. From such a historical viewpoint, a focus on the Chinese example is important, but not in itself sufficient, as it gives only a partial view of developmental processes that have been at the heart of (initial) industrialization strategies since at least the 1820s—and arguably even earlier.

The focus on China is, however, entirely understandable, for it offers the most recent and—in terms of GDP growth—the most successfully sustained example of such state-led development. As a result, perhaps the most significant role that China plays as the world rethinks modes of governance is in reminding us once again of the success of alternatives to the neo-liberal project. What has happened during the current crisis has reinforced the image of China representing a strong state developmentalism that may provide the best bet for other developing states in the aftermath of the global crisis. That China is prepared to engage with other states in a way rather different from that adopted by western states only serves to enhance the idea of China as ‘alternative’—a project ably supported by the concerted efforts of the Chinese state to promote itself as ‘different’. That it also has the money to invest in other states, and a market hungry for resources from a wide range of different countries, only adds to China’s significance and attraction as a partner.

Attempts to construct an image of China as a different type of state and different type of actor in international economic relations stem in part from feelings of vulnerability. China’s leaders are aware that their grip on power cannot be taken for granted and that China’s position in the global (political) economy is a key determinant of domestic economic growth. In keeping with the idea that diplomacy should serve domestic economic construction,81 this realization initially generated

80 Chang, Kicking away the ladder.
an attempt to allay fears about the consequences of China’s rise to Great Power status, and an emphasis on China as peaceful, harmonious and responsible. But a desire for peace and responsibility does not simply equate with a commitment to and/or acceptance of the status quo. As a ‘dissatisfied responsible Great Power,’\(^8\) China has been represented by its elites as a force for responsible but fair change to the global distribution of power which should result in a greater voice and role for developing states. Moreover, China has tried to establish its own normative position as a non-interventionist state that is simply unconcerned about how other sovereign nation-states manage their own domestic political and economic affairs. This idea of China’s difference is part of a feedback loop that has seen the idea of the Chinese model both result from, and then reinforce, conceptions of Chinese difference and exceptionalism: the model is both a result of China’s unique history and at the same time a manifestation of China’s uniqueness and ‘difference’.

So in many respects, we can think of the China model as a speech act—talking about it makes it exist and something that has to be dealt with. But it does not yet have intersubjective meaning: there is no common and agreed understanding of what the China model means and whether it implies uniqueness or not. And whether they like it or not, those who talk and write about the China model or the Beijing Consensus need to be aware that they are part of the process of making it real. This includes not just those who laud and admire the Chinese alternative, but also those who are more critical and/or concerned about a Chinese challenge to the existing global order.

FORUM

The G20 and Contested Global Governance: BRICS, Middle Powers and Small States

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Abstract: The G20 opens a critical lens into the nature of contested global governance at a time of fundamental re-ordering. Although increasing their status. The BRICS have not made sustained efforts to influence the design of the G20. By way of contrast a number of middle powers have exhibited more assertive diplomatic styles as hosts and policy entrepreneurs. While initially left outside the summit process, some key small states worked extensively through coalitional diplomacy to gain some degree of access to the G20. This paper showcases the degree to which the contestation about the nature of new forms of global governance must be nuanced. The main route of contestation for the big rising powers has come via parallel institutional structures – notably through the formalization of the BRICS. Middle powers and smaller states, with a greater sense of the stakes involved concerning ‘hub’ institutionalization, have a much greater incentive to actively engage with the G20.

Keywords: Global Governance; Summity; G20, BRICS; Middle Powers, Small States

The G20 opens crucial lenses into the context and nature of contested global governance taking place during a time of global re-ordering. The elevation of this forum in 2008 constituted an ambitious scenario for the opening up of the management of global economic governance at the apex of power. Yet, the response by traditional outsiders to the creation of this new 'hub' summity process has been highly differentiated, with an inverse relationship
between member states' position or seat at the table and their pattern of diplomatic engagement in the G20 process. China, India and Brazil – the premier big rising countries - clearly elevated their status through the creation of the G20 at the leaders' level. In terms of institutional commitment, however, these emerging countries have maintained hedging strategies, willing (and to some considerable extent pleased) to be on the inside of a pivotal forum but hesitant to move out in front and lead on a range of concrete G20-focused initiatives. As in other institutions such as the WTO a key priority has been on blocking initiatives at odds with their interests, as opposed to offering innovative forms of engagement in terms of the policy agenda. At the same this cluster of countries have endeavored to keep their options open both in regional terms and through the formation of alternative summit processes, above all the BRICS.

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To point to this lack of operational buy-in is not to suggest that the G20 has reverted to the form of explicit polarization featured through the 1960s to the 1980s. The BRICS generally, and core countries such as China more specifically, in declaratory terms affirm the need for the 'same-boat spirit' via the G20.¹ This commitment was particularly strong in the immediate Global Financial Crisis (GFC) moment, but it has continued through declaratory calls for the need to maintain a strong and stable financial system. If critical of some aspects of the G20's mode of operation, the BRICS acts more like a caucus or lobby group than a rival grouping. There was no sign of a serious defection from the G20. Moreover, instead of the uniform form of cleavage associated with the earlier era, most of the important issues featured crosscutting cleavages in which there were mixed ad hoc coalitions.

Rachman highlights how the G20 process has become the institutional site of a number of fissures within the international political economy: current account surplus versus deficit countries, currency manipulators versus manipulated, fiscal expansionists versus conservatives, democracies versus autocracies, West versus the rest, interventionists versus sovereigntists, and member versus non-member countries.² What is of significance here is that when these fissures are explored in terms of the substantive issues of the G20 these fissures are not reduced to established versus emerging countries. As Schirm illustrates these lines of fracture are complex,
cutting across pre-existing alliances such as the G8 and BRICS groupings. Examining five issue-areas: stimulus and public debt, global imbalances, exchange rates, financial market regulation, and governance reform in the IMF, Schirm illustrates how the G20 process has been illustrated by crosscutting alignment of both established and emerging countries via ad hoc groupings, resulting in country positions that were on 'both sides of the divide'.

Given the prevalence of fragmentation within the G20, the fragility of the G20 can be interpreted as evidence of a more complex and overlapping mode of functional contestation than witnessed in the older politics of the north/south divide. Yet, beyond issue-specific tensions, there is the question of ownership of the G20. Even with their insider status, the rising big powers continued to have grievances about the way the G20 was created and operated beyond functionalism, highlighting questions about the political purpose of the forum.

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If the BRICS merit the most attention in tracing the process of re-ordering in the global system, this paper emphasizes how traditional outsiders have responded to the G20. It is argued in this paper that the shape shifting of the concert model to the G20 has raised the stakes for a select group of G20 insider middle powers to exercise agency as norm and policy entrepreneurs. Examples to date include the 2010 co-hosting of the G20 by Canada and South Korea, along with the Mexican Los Cabos 2012 meeting and the prospective Australian and Turkish summits in 2014 and 2015. This paper showcases the degree to which both architecture and agency of new forms of multilateral diplomacy are conflictive, but that the nature of this contestation must be nuanced. The main route of contestation for the big rising powers has come via parallel institutional structures – notably through the formalization of the BRICS countries and traditional powers alike. Middle and smaller states, with greater sense of vulnerability in the context of structural shifts in the world order have a much greater incentive and opportunity structures to actively engage with the G20 as well as the necessary agency to impact the G20 process. Indeed, the more the G20 as an institution becomes deadlocked, the more incentive these middle powers have in trying to break deadlocks. Furthermore, institutional refinements such as the G20’s troika process assumes substantial relevance for estimating the impact of
middle powers both on global governance outcomes both of the G20 and of wider global governance architectures.

The balance of functional necessity and procedural fragmentation creates an interesting institutional environment for locating sites of agency within a wider setting of stalemate and conflictive multilateralism and in particular, where middle powers within the international system, and whom have gained access to the G20 process have been able to leverage agency within this institutional environment. Middle powers have been able to leverage their agency through targeted activity within the G20 on substantive issues. Such coalitions have emerged in the form of ad hoc groupings and the experts/working group tracks of the G20. Coalitions include coordination with both the large (developed and developing states) as well as with other middle powers. Sub-summit processes such as the experts and working group tracks illustrate that the effectiveness of middle power diplomacy and agency cannot be analyzed solely by the summit. Rather, it is the day-to-day practice of G20 governance where the impact of middle powers must be gauged.

In comparison to the hedging strategy of the BRICS, the select cluster of countries that obtained insider status to the G20 have highly committed to the workings of the forum. Contested global governance, though, was not only a site of tension between different categories of insiders. There were also escalating tensions between members and non-members. While acknowledging the innovative design for global governance through the establishment of the G20 for new multilateralism, the self-selective nature of the G20 (and the bias toward bigness) exposes legitimacy weaknesses with respect of the G20 in terms of its representational gaps.

Contested global governance from a small state perspective can be put into three broad categories. The first is the group of countries that reject the G20 in an outright fashion, most notably the ALBA (Bolivarian Alliance for the Americas) countries. A second category is the cluster of countries that are potential additional members of the G20 if the design expanded in one-way or another. Some of these countries have been quite vocal in their demands. In Europe, the early position of Norway stands out in this category. Norwegian Foreign Minister Jonas Gahr Støre offered a robust critique of the G20, labeling it as ‘a grouping without international legitimacy’ or without a ‘mandate’ concerning ‘its functions’.
The third group of ‘outsider’ countries, as represented by the so-called 3G cluster of countries, expressed concern that decisions of functional importance to them were being made within the G20 without their representation or consent but rather than outright rejection, the preference has been a pursuit for inclusion. The G20 is not rejected but viewed as an institution that needs to take into account important issue-specific interests of non-members.

This constellation of countries highlights the paradox of the G20. At the top strata of the international hierarchy, there was space for ambiguity towards the G20. If viewed declaratory as the main game of global economic governance, other options were kept open. And if this was so with the BRICS it was equally true with the G7/8, as witnessed by the come back of this traditional hub forum in global politics. Neither middle states nor small states, though, had this luxury. Although they did not have the structural weight within the G20, they had a strong rationale for focusing attention on the G20. For the middle states, the approach had a high degree of organizational maintenance attached to it. To be sure their agency targeted specific issues areas. What is clear is that these countries did not want institutional failure. The small states, by way of comparison, mixed symbolic concerns about the trajectory of global governance with highly instrumental objectives. Middle power diplomacy and agency in this regard, highlights a plausible linkage between middle and non-members of the G20.

THE BRICS: HEDGING FROM A CENTRAL BUT AMBIGUOUS POSITION WITHIN THE G20

It is the commonplace to see the big rising powers in the BRICS as constituting the major set of winners in the elevation of the G20. Not only could the G20 offer instrumental delivery in the wake of the GFC, it could do so explicitly as a forum of ‘un-like’ actors, fully reflective of a diversity of voices. As David Held has signified, the G20 featured ‘an unprecedented successful attempt by developing countries to extend their participation in key institutions of global governance.’

Although self-selective in approach, the format of the G20 was attractive to the BRICS for a number of reasons. Given the size of this new concert, breaking with the sense of solidarity with the ‘rest’ of the global South – and the UN - could be justified. As Brazilian Minister of Finance Guido Mantega indicated,
instrumentalism in terms of problem solving went hand in hand with status-seeking at the time of the GFC:

There is no agile structure prepared to deal with emergency economic problems. That is what we have seen at this time...We have to turn this G-20 into a forum or a tool of some kind that can provide answers to immediate problems and coordinate its actions better amongst many countries. We are facing the most serious financial crisis perhaps since the crisis of 1929, and as this crisis is getting more serious it demands quick answers, immediate answers. It must be monitored day-by-day, hour-by-hour, so that the necessary measures can be taken to handle the problems that arise. So, there must be very agile instruments available for that to happen.9

Unlike the attempts to reform the G8 from the inside directed through the so-called Heiligendamm or Outreach 5 (O5), the G20 offered formal equality to the rising powers. Confirmation of this elevated status accorded the BRICS came in the rotation of the presidency of G20 Finance: India in 2002, China in 2005, South Africa in 2007, and Brazil in 2008 amid the central moment of the financial crisis. By the 2007 Heiligendamm summit, it was clear that major international challenges could not be addressed without ongoing cooperation of the large countries of the global South.

In format, not only did the mode of operation fit with a model of ‘executive’ multilateralism,10 it was strongly inter-governmental little space for non-state actors in the initial stages. In scope, the hub component opened up the prospect of a cascading effect in terms of other forms of institutional reform, above all on the IFIs. Yet, in terms of actual ownership, the rules of the G20 were not made in equal fashion by the rising powers. On the contrary, those in command were the same countries that have been leading for decades now: first and foremost the United States, aided by its inner circle of France and the United Kingdom, in particular.

The most significant feature at the creation of the G20 is the paramount role of the US. In terms of material interests, and the stakes involved in problem solving, the logic of this role can be underscored. The financial meltdown in October 2008 was widely and accurately construed as being ‘made in America’ with the contagion effect of the sub-prime mortgage phenomenon and the collapse of Lehmann Bros. and AIG. Moreover, the image of a declining hegemon does not intrinsically rule out the US from hosting a ‘crisis-busting’ summit. After all, the UK hosted the ill-
fated 1933 Monetary and Economic crisis in the midst of the protracted depression of the 1930s.

That being said, the high-profile diplomatic campaign by President George W. Bush to build the G20, with President Obama consolidating this initiative, is striking. As Kirton notes, the US grabbed ownership from the start—with an eye to ‘design, host and chair the G-20 summit in Washington’.\(^1\) Some of this G20-building linked in with the established institutions, notably with the push by Bush and Hank Paulson to convene a special meeting of the already established G20 finance ministers on the margins of the semi-annual meetings of the World Bank and IMF beginning in Washington on October 9, 2008. After meetings with G7 finance ministers on Saturday, October 11, Bush and Paulson met the G20 finance ministers at the IMF, with Brazil’s Guido Mantega in the chair. During that meeting Bush acknowledged the responsibility both for causing and dealing with the crisis, concluding with the statement that it was ‘now is the time to solve this crisis’ through expanded forums of international cooperation.\(^2\)

At odds with the common image of new administrations discarding the practices of their predecessors, Obama maintained the Bush game plan. Control of the G20 was kept with the Anglo-American condominium through the first three summit meetings, with the UK (and Gordon Brown) hosting the second in London in April 2009 before returning the host function to the US at Pittsburgh in September 2009. Consolidating the Bush plan for privileging the G20, the US at the Pittsburgh endorsed the summit as the premier forum for global economic governance. The Obama administration also crafted the hosting schedule of G20 summits through 2011.

In terms of the substantive agenda, moreover, the G20 did not demonstrate any explicit loss of control by the US and the West. In an early assessment Tedesco and Youngs warned of the G-20 representing not a new forum reflecting the current distribution of international economic power, but rather, a new forum of old voices, meaning that ‘the G20 will ultimately be less a facilitator of more effective multilateralism than a distortion of this principle in favor of what is little more than a re-jigged ‘great powers’ format. ‘There exists a real danger that the G20 will prove to be an informal grouping that empowers big powers to the detriment of genuine multilateralism’.\(^3\) While as noted at the level of functional contestation there was a high degree of mixed coalitions (with German concerned about the privileging of global imbalances, and
Brazil concerned about any outbreak of ‘currency wars’) there was also a traditional narrative, with the US proposing action on these issues and China blocking. As the vice-president of China Institute of International Studies noted: ‘China tries to play an active role in the FWG (framework working group), although it may not be looked at as a popular collaborator in the discussion. For example Chinese officials did not make concession on: 1) replacing current account with disaggregated indicators such as trade balance and net investment income flows and transfers; 2) excluding real exchange rates and international reserves as indicators of imbalance’.14

Although the set of activities undertaken by individual BRICS embellish the image of competition it is the BRICs/S as an alternative form of collective institutionally based behavior that is at the fore of such scenarios. Signs that the concept of BRICs was being re-configured in such a fashion was evident prior to the financial crisis. In October 2007 the trio of foreign ministers from Russia, China and India (RICs) met in Harbin, China. And in May 2008 after another meeting of the RICs, the foreign ministers of the complete set of BRICs countries met for a day in Yekaterinburg, Russia. Following this, the first official BRIC summit was held in Yekaterinburg in June 2009. Brazilian President Lula da Silva, the host of the April 2010 summit, upped the ante by stating that: ‘A new global economic geography has been born’.15

One construction renders this move to formalize the BRICs as a grouping with a concern with equity and justice for the less powerful in terms of global governance. The Yekaterinburg Joint Communiqué declared that:

*We are committed to advance the reform of international financial institutions, so as to reflect changes in the world economy. The emerging and developing economies must have greater voice and representation in international financial institutions, and their heads and senior leadership should be appointed through an open, transparent, and merit-based selection process. We also believe that there is a strong need for a stable, predictable and more diversified international monetary system.*16

Examining the BRICS more closely, however, it is hedging behavior again that stands out. The G20 up to St. Petersburg has yet to explicitly acknowledge the BRICS grouping in its official communications. Nonetheless, the BRICS provides the big rising powers a diplomatic space that can act among other activities as a
lobby or caucus group in tandem with the G7/8. What unites the BRICS remains the desire to be elevated insiders within the central institutional architecture of the global system. Declaratory support for the G20, thus, has been maintained. The shared sense of 'rising together' however is the issue of greater equality of representation in global economic governance while acknowledging the G20 as the pragmatic conduit for that process. The Chinese official spokesperson enunciated after the Fourth BRICS Summit:

The BRICS countries reaffirmed their support to the G20 in playing an active role in strengthening the coordination on international macroeconomic policies and promoting world economic recovery and growth. The BRICS countries called for reforming the international monetary and financial systems, increasing the say and representation of emerging markets and developing countries and especially speeding up the reform of IMF quota and governance structure so as to develop a good institutional framework for world economic development. This has reflected the efforts made by the BRICS countries to pass on the confidence in the stability and recovery of the world economy and inject a driving force into global economic governance.\textsuperscript{17}

Hedging behaviour is dominant in utilizing the BRICS as a lobby group for initiatives beyond the representation issue. For example, the BRICS were able to mount only a diluted and delayed initiative on a European bailout. Brazilian finance minister, Guido Mantega, called a meeting during the mid-September IMF/World Bank meetings to see whether the BRICS could operate in collective fashion, at the height of the Greek crisis, but the national responses remained quite different. Brazil's president Dilma Rousseff, although not explicitly calling for a BRICS-only plan, stated at a EU-Brazil summit held in Brussels that 'Brazil, and here I'm quite certain I also express the view of the developing economies, is ready to take on its responsibilities in a cooperative spirit'.\textsuperscript{18}

Yet no larger effort along these lines could be mobilized by the Cannes summit. At the BRICS meeting immediately prior to the summit China effectively curbed any enthusiasm for an ambitious collective effort, offering only that the BRICS create a consultative mechanism to closely watch the development of the European situation, with an exchange of ideas on relevant issues and strengthen coordination. India stated in principle that it was ready to step in to stem any contagion effect, but in practice backed away from any such move by saying that it had not received any firm request for help. South Africa's Finance Minister Pravin Gordhan
stated that there was ‘a recognition that we are all in this together’ but certainly did not see the BRICS as a lead actor in any rescue move. Reserve Bank governor Gill Marcus expressed an even more cautious approach, distancing South Africa from any BRICS effort. ‘I think you can’t [make the argument] this is something which we can do. Our reserves are nothing like China’s. China’s are in the trillions, we have US$50 billion’.19

It was only at the Los Cabos summit in June 2012 that the BRICS were able to mount any form of collective initiative, with the infusion of substantial funds into the IMF extended firewall, with China committing $43 billion, Brazil, Russia and India pledging $10 billion, and South Africa offering $42 billion. This commitment came though with some conditionality, with these resources only being called upon after existing resources are utilized and in anticipation of the implementation of IFI reform. The move in effect then was a signaling exercise, with the BRICS using the G20 as a platform to push for extended institutional change.

More ambitiously, this group of countries has moved towards the establishment of a BRICS development bank, which highlights the group’s ability to advance their common interest despite national differences in its negotiation. The Fifth BRICS Summit in Durban – and the mini-BRICS summit on the edge of the St. Petersburg G20 summit - highlighted the model of the New Development Bank with an initial $50 billion fund and a currency reserve agreement of $100 billion. The process of implementation in terms of this mechanism, however, has been a protracted one, and lower down in the list of priorities than the ‘urgent need to implement’ IMF Quota and Governance Reform.20

TAKING ADVANTAGE OF CONCERT CREEP: MIDDLE POWER AGENCY

Reinforcing the notion of change in the global system is the relatively large number of countries involved in the G20, both in the late 1990s with the establishment of the G20 Finance and in the elevated G20 at the leaders level. In contrast to the traditional concert models of the 1814/15 and 1919, which comprised a core grouping of 3, 4 or 5 countries,21 the members of the G20 are quite numerous and diverse. There is neither the image of allies/victors in war nor is there the sense of ideological uniformity or anti-revolutionary ethos. In the G20, as the hub of the new order, there are countries from every quadrant of the globe plus some implicit
regional representation. Under such conditions there is space for different – although perhaps not mutually exclusive – components within the ambit of the G20 at the leaders level.

The image of the G20 dynamic as largely shaped by the traditional establishment and BRICS implies a marginal role for the ‘rest’ must be nuanced by evaluating middle power diplomacy as both a stabilizing feature and critical element of agency in the G20 process within the context of a shifting global order. The key feature of middle power diplomacy is for the potential of these countries to act on niche issues given appropriate openings in the political opportunity structure. Here, the ‘hosting’ variable serves as a crucial opportunity structure for middle powers to advance agency on an issue-specific basis. It is through the G20’s tensions where the sites of political opportunity to exercise agency are found on the part of the middle powers.

Middle powers can lever some aspects of contested global governance of the G20 process to their advantage. As groupings of large established and emerging powers respectively, the G8 and BRICS groupings have capacity to forum shop in terms of their desired site of interaction, while retaining the G20 as the premiere forum for global economic governance. The use of forum shopping and is illustrative of a hedging strategy, in turn increases the prospects of conflict of mutual forums such as the G20.

The G20’s contested global governance is a visible outcome of these shifts occurring to the structure of the global system. With stalemate and procedural sclerosis overcoming the G20 process, these dynamics present a political opportunity structure for less systemic powers - the middle powers in the G20 – to gain traction in terms of setting strategic priorities within the G20 on niche issues as well as to provide a mediatory role in diffusing conflict arising from geopolitical and system structural shifts.

When the traditional criteria of G20 candidacy are examined through the lens of contested global governance, the composition of membership becomes significant. The G20’s core condition of inclusion – systemic significance – needs to be conceptualized beyond a purely economic definition, where justification of the G20 on the basis of ‘economic size’ qualifications is questionable. The notion of systemic significance as an explanatory concept for the G20, then, must incorporate more than the variable of economic weight to include measures of strategic inclusion.

The role of middle powers to the G20 process in this context, must be viewed in terms of the practical impact of these countries
to add value to the G20 process/agenda as well as their place in diffusing conflict in the context of great power transitions. To accomplish this, analysis requires both a consideration of the traditional middle power model, as well as a consideration of new features of the middle power model in response to changes in global order. In other words, membership in the G20 facilitates agency in terms of issue-specific forms of policy leadership. The most effective uses of middle power diplomacy within the G20 to date have come from South Korea and Australia. Less effective middle powers include Indonesia and Turkey, though both countries possess significant potential to leverage systemic and geopolitical significance via their respective positions in the G20 and global order.

In terms of agency and strategic middle power diplomacy within the context of the G20, South Korea has, by large, has managed this role most effectively. To date, South Korea exemplifies the most assertiveness in the advancement of niche issues in the G20 process. The success of South Korea’s pursuit of the development agenda was the result of the tractability of the issues as well as Koreas strategic planning and gauging of the political opportunity structures within the G20.

The creation of the G20 provided South Korea with new possibilities in terms of diplomatic activity, especially in terms of convening power. Notwithstanding a structural weight below that of not only China but Japan and India, South Korea raced ahead to grab the right to host the first G20 outside the ‘Anglo’ world. In doing so it played up its ‘bridging’ role with respect to its evolution from a developing country to a developed (OECD) state. Although not alone in it ambitions, Korea’s unique brand is important here (punctuated by the close relationship between the Korean state and corporate giants such as Samsung). As President Lee Myung-bak stated, ‘The world can be split into two groups: One group sets global rules, the other follows. South Korea has successfully transformed itself from a passive follower into an active agenda-setter’.23

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Unlike the BRICS, there was no sense of aloofness or hedging by Korea. Nor were there any explicit recriminations about the causes of the crisis that led to the creation of the G20. South Korea in contradistinction used the familiar repertoire of traditional middle
power statecraft, with a heavy reliance on quiet diplomacy and issue-specific mediation. Prior to the Seoul summit, for instance, Korean officials steered the G20 debate toward boosting domestic demand in China, which got buy-in because it did not demand that China revalue its currency.\textsuperscript{24}

For the rising middle powers the G20 did not present challenges in terms of being ‘responsible stakeholders’ but opportunities in terms of access to the ‘high table’ at the apex of power. Nor did Korea have the contradiction facing the BRICS as being a rising state power at the same time as continued to have embedded within them a massive degree of societal inequality.

In terms of substance, the idea of the financial safety net attracted strong interest from emerging market economies that are vulnerable to sudden changes in international capital flows. Before the 2008 crisis, emerging markets in need did not want to turn to the IMF for help because an IMF bailout brought a stigma effect, destroying the credibility of borrowers. What they needed in the IMF was a pre-crisis prevention insurer, not just a post-crisis bailout fund. During the Seoul Summit, the G20 decided to strengthen the IMF’s crisis prevention role by expanding the IMF’s Flexible Credit Line and introducing a new Precautionary Credit Line. G20 leaders hoped that these new sources of funding would reduce the need for emerging countries to accumulate foreign reserves as self-insurance against volatile global capital flows. South Korea also sought the ways for the IMF lending facilities to link up with various regional arrangements such as the Chiang Mai Initiative in Asia.

South Korea’s presidency of the G20 also presented an opportunity to bring development issues to the table. With its vivid memories of both development successes and failures, Korea pushed for a development agenda and multi-year action plan, including a pledge for duty-free, quota-free market access for low-income countries. The initiatives could make the G20 Summit a much more inclusive and relevant event for the entire world as it can bring more than 173 non-member countries into the G20’s sphere of influence.

The Seoul Summit also aimed to achieve macroeconomic coordination with detailed policy recommendations for each individual member country to develop the Framework for Strong, Sustainable and Balanced Growth. In the end, no breakthrough on currency and imbalance issues was reached at the Seoul Summit. But as noted above South Korea managed to broker significant
agreements. On currency levels, the leaders agreed to move toward market-determined exchange systems and on macroeconomic imbalances, they set the deadline of June 2011 for coming up with ‘indicative guidelines’ of what constitutes an over-the-top deficit or surplus. Media reports that President Lee threatened not to end the meeting until China and other opponents agree to the deadline.

If the sense of commitment to the G20 is very different on the part of middle states than the BRICS, so are the constraints. The agency of the middle states in terms of agenda setting is highly contingent on the hosting function and other forms of institutionalization such as the troika. It is also highly focused on ideational as opposed to structural power, with a catalytic as opposed to a blocking function. The role of middle powers to the G20 process in this context, must be viewed in terms of the practical impact of these countries to add value to the G20 process/agenda as well as their place in diffusing conflict in the context of great power transitions.

SMALL STATES: INSTRUMENTAL TO SYMBOLIC PRIORITIES

The role of the 3G (Global Governance) Group and the specific role of Singapore merits special attention, in revealing the intensity of response by small countries to the G20. As early as April 2009, during the G20 London Summit, Singapore took the lead in arranging meetings with non-G20 countries in order to develop the idea of the 3G.25

In approach, the 3G was not a complete break with the older tradition of solidarity among the marginalized from the bottom up. As in the past, there was an explicit oppositional component in this coalition – with an emphasis on voice opportunity – given that key members of the 3G had been targeted by the G20 directly and indirectly via the Organisation for Economic Co-operation and Development (OECD) as offshore financial centers. This targeting was especially intense at the 2009 London Summit with the publication of the G20 communiqué in tandem with the OECD list.

If a sign of efficient action, however, the issue of OFCs raises the question of input legitimacy to a very different level. Can the G20 not only speak for the rest of the world but also impose its will on countries that do not belong to the group? This issue of fairness of representation came to the fore in some of the declaratory statements by the organizers of the 3G. As Singapore’s Foreign Minister George Yeo put it very bluntly in one interview:
At the London meeting (of G20), financial centres became a major issue and countries like Singapore and Switzerland unexpectedly found themselves in the grey list and came under some pressure to alter the way we operate. This was without prior consultation with us, we were not involved in the discussions but we had to react to the decision taken by the G20 and we have reacted. That doesn’t seem to me to be the right way to get things done. Hong Kong, which had a situation very similar to Singapore, had China to look after its interests so it is not on the grey list but Singapore was, and other countries too. So I think it is important that on issues that concern others, those who have major interest, should also be brought into the discussion. That is a matter of process; it would improve legitimacy and the sense of fairness.26

Still, if a catalyst for action, the 3G could not have extended its scope of membership if it was only directed to a single issue. What the 3G did was to tap into the same sense of exclusion driving the regional critics but to re-configure this resentment into a larger campaign directed at engagement with the G20 under the banner of variable geometry. Using this device the 3G could make the argument that small countries should have access to the G20 on a functional basis – very much the same argument that middle powers have made throughout the post-1945 era.

Departing from the strategy of resistance adopted by other small states (especially the ALBA) the 3G group pushed for a more inclusive G20. Speaking at the University of New York in late March 2010, Ambassador Vanu Gopala Menon, permanent representative of Singapore to the United Nations, spoke of the international reactions to the G20.27 He stated that Singapore had found a different way, one that – rather than simply accepting, rejecting or ignoring the G20 process28 – sought to build a more equitable relationship between the G20 and non-G20 countries.29

In terms of functional contestation there was a prime logic within the 3G to engage diplomatically and to settle the offshore financial issue. Through the coordinated efforts of the 3G, the focus shifted to a bilateral response to the G20/OECD targeting with concentrated, if uneven, emphasis on implementing agreed exchange of tax information (EOI) standards in a more behind the scenes and low-key fashion.

What gave the 3G its originality was not however its defensive stance against stigmatization in instrumental terms, but rather its ability to shift the objectives towards a re-balancing of the relationship between non-members and members of the G20. Akin
to the other strands of solidarity by non-members of the G20, this offensive approach combined intensity of voice opportunities with scope of mobilization. The difference was its adaptive quality, with some degree of accommodation to the existence of the G20 so long as the summit process shape-shifted in accordance to the tenets of inclusionary global governance.

With respect to means, the 3G built up its own standing through the power of numbers and a diversity of membership that was difficult to ignore. Structurally there were some limits imposed on these coalition-building efforts. Some member-states of the EU, notably Luxembourg, have very similar profiles as the core 3G membership, but did not join. The 3G also did not include a wide number of African countries, and even those that joined kept a low profile. Notwithstanding these constraints, however, the 3G was able to build up an impressive degree of geographic diversity with 29/30 members from Europe, the Middle East, the Americas, Asia and Africa.

One route in building capacity was through an overlapping initiative with the World Economic Forum, which networked Singapore and Switzerland with Qatar – a formidable small state diplomatic actor, and one, notably, without an offshore financial issue association. George Yeo, Singapore’s foreign minister, travelled to Davos to link up with state officials of small European states as well as a larger group of opinion-leaders. It was during this stage of the initiative that the name ‘3G’ was formalized – an idea that came from Lichtenstein. Another source of strength was the willingness of the core states in the 3G - in particular Singapore, Switzerland and Lichtenstein - to use the diplomatic capacity of their UN offices in New York to build leverage for the group. Such buy-in demonstrated that the 3G directed its voice opportunity not only from the outside, but from inside the global system.

In implementing this strategy the 3G made its own mechanisms valuable, even indispensable, to both the G20 and the UN. The problem for the G20 as it moved beyond its catalytic stage was that of entrenching its legitimacy. Although most important for the BRICS, which did not want to be seen as breaking away from the tenets of universalism and solidarity, legitimacy was also a concern for the Obama administration, which wanted to mend some fences with the UN and the wider international community in the post-Bush era. A measure of this US concern with legitimacy can be gauged by the fact that President Obama’s Sherpa for the G20 had begun to include the UN in his shuttle diplomacy, a huge contrast
with the culture of neglect for the G20 under the Bush administration.

The 3G’s ability to deliver on the legitimacy dimension of global governance is perhaps best exemplified by the UN’s unwillingness to acknowledge the G20’s existence formally in its proceedings and documentation. In facilitating this breakthrough – through the text of the resolution 65/94 - the 3G had to overcome resentment to the G20 not so much of resister countries directly but the core countries within the overall structure of the G77. Here sheer numbers played a crucial part in allowing resolution 65/94 to be adopted by consensus in December 2010, as open conflict with the 3G meant that resisters would have to break with a large group of the UN membership. The success of resolution 65/94 led to a more sophisticated (albeit continuing) debate about the comparative advantages between the G20 and the UN. Joseph Deiss, the Swiss president of the UNGA in 2010 conceded, for example, that the G20 had ‘effectively delivered’ rapid and coordinated response at least in the context of the ‘immediate aftermath’ of the 2008 financial crisis. He also conceded that in this process the UN had been to a considerable extent marginalized – it was talking through the UNGA without the G20 listening. That being said, however, the G20, as with other ad hoc groups, had ‘questionable legitimacy’ and the need then was for ‘the best possible articulation of expertise, leadership and legitimacy, and to do so in a setting of coherence’.

A second means by which the 3G was able to bridge its leverage and the extension of legitimacy was through the rapprochement of the UNSG’s role in the G20. The Bush administration had explicitly excluded the UN from the G20 process. What the G20 was instrumental in doing was to re-insert the UNSG into the G20 process, if not as a primary actor then at least in a connected/supportive manner. This re-insertion was done above all through persistent lobbying in the run-up to the Toronto 2010 summit, due to concerns that Secretary General Ban-Ki Moon would be excluded from the summit. A third achievement in instrumental results, due to 3G pressure and in combination with other forces (including the push by South Korea as host), was the acceptance by the G20 of a formula for non-member participation, enabling the summit host to invite up to five guests. Although mainly directed at the settlement of the question of regional representation, the 3G was the main beneficiary of the decision of this G20 just before the November 2010 Summit to introduce a ‘G20 plus five’ approach, with the Korean preparatory committee
explicitly stating that this decision had been made because ‘we finally agreed that we needed to have a better geographical balance’. 31

Yet, given even its capacity to ease the contestation of global governance, it would be a mistake to exaggerate the 3G’s impact on the G20’s effectiveness vis-à-vis its agenda. The 3G did promote a form of variable geometry that sought to establish and justify a dialogue between the G20 and the 3G on issues of instrumental importance to the 3G, as illustrated in its concerns on the labeling of its members in the offshore financial-related issues. But as the 3G moved into bilateral means of dispute-resolution and the pressure from the G20 on these issues relaxed, this concept of bilateralism spilled over into other issue-areas – in particular food security – in which countries such as Chile and Uruguay had important interests as agricultural exporters. At the same time, this downplaying of its overall instrumental effectiveness should not overlook the 3Gs influence on the legitimacy side. Unlike the resisters or the aspirants to the G20 process, the 3G reconciled self-selective executive multilateralism with the principles of global governance. While grounded in national interests, this reconciliation could have only been achieved by a subordination of issue-specific instrumental concerns to a wider narrative by the 3G that was grounded on the need for transparency, greater scope for participation, and some join-up between formal and informal mechanisms of multilateralism.

As with other components of small state diplomacy there was a strong element of symbolism attached to the 3G’s achievements. Certainly there was little in the way of immediate material benefits that came out of the coalitional exercise, and the instrumental benefits from the 3G were gained largely at the national level. Leveraging the voice opportunity amplified by numbers, Singapore was able to move towards an inside status in the G20. Invited by South Korea to attend the Seoul summit, Singapore was invited back by France at the Cannes G20 in November 2011. These benefits reflected a demand for an in-between approach from a non-member that was not tilted towards blocking but rather towards entrepreneurial and technical leadership on an issue-specific basis. The status of Singapore in this regard can be judged by its repeat attendance, in a context where the ‘natural’ representative of the 3G would be country such as Switzerland. To the credit of Singapore, it was able to supply this form of leadership over a mixed coalition with representatives of both rich countries.
from the North and well-to-do and poor countries from the global South. The recipe of keeping the coalition was a mix of industriousness and an interesting mix of public relations and risk-adverseness. Singapore, using resources not available to most small states, kept the momentum up by holding monthly meetings and preparing documents. Its ambassador to the UN used an effective form of public diplomacy to complement the inside game of lobbying with an outside game that showcased the narrative of fairness and equity in terms of global governance.

The extension of Singapore’s diplomatic attributes into the 3G – and through these into a more privileged position in the G20 – also reinforced its own skills and capabilities. Although stimulated into action on the G20 due to its non-member role, Singapore (along with Switzerland) enjoys insider status in other parts of the G20 extended network. This role is most evident in the membership of these key 3G countries in the FSB. In terms of the shaping and monitoring of an array of regulatory issues, therefore, Singapore (along with Switzerland) was a rule maker, not a rule taker. The finance minister of Singapore was also appointed head of the IMFC. Singapore also was willing to pass on leadership when the context of the G20 evolved, thus defusing emerging rivalry issues. To be sure, as witnessed by the dynamics of the Los Cabos summit in June 2012, Singapore’s visibility in the 3G was temporarily reduced, with Chile taking on the task of supplying much of the group’s entrepreneurial and technical capabilities, before Singapore reappeared at the St. Petersburg summit. Such a transition reinforced the impression of success with respect to the impact of informal-based multilateral light, in that this handing off of leadership enhanced the 3G’s credibility in terms of the practice of global governance while consolidating institutional access to the G20 in the context of an easing of intensity over the question of financial centres.

CONCLUSION

The dominant, formative image was of the G20 as a 21st century concert of powers bringing together countries from the old establishment in the G7/8 and the cluster of ascendant, systemically important countries from the global South. This paper shows, however, the insufficiency of analyzing the G20 exclusively from this closed apex perspective. The G20 has not remained a static entity since its creation in 2008. Thus it is
imperative for analysis of the G20 to be attentive to the fundamental changes in the global system as well as within the G20 itself to understand the nuanced position of the forum's development of global governance. Put another way, the G20 has become increasingly de-centered.34

The G20 demonstrates that there are strong counter-forces to reconfigured inter-state polarization and ‘overt balancing’ with respect to the BRICS.35 The BRICS do not use the G20 as a site of explicit site of contestation of the general rules of the game in terms of the global system. In declaratory terms they continue to be highly supportive of this ‘indispensable’ forum. Contestation is targeted at both functional issues of national interest and in leveraging their position inside the G20 for great fairness and equality of the system. At the same time, the BRICS are not locked into the G20. They continue to explore means of going around the G20. They also use the G20 as a site to come together at the leader level in a caucus group.

Whereas the BRICS membership within the G20 has a heavy emphasis on status, showcased by ‘rising’ images, the small states and middle powers have more exaggerated concerns about vulnerability and opportunities. For the small states of the 3G group being left outside of the G20 came as a shock, given the fact that the G20 focused on functional issues that was central to their national interest. What they had to offer for getting some access to the G20 was not voice but the imprint of legitimacy.

The middle states’ position is in some ways the most sensitive. The BRICS have other options beyond the G20 so can use the G20 as a placeholder. The small states of the 3G have warded off extreme scenarios of exclusion so can be content with playing a lower-key role. The middle powers, however, have had the role of insiders opened to them in an unprecedented fashion, but without the structural power of either the old establishment of the G7/8 or the BRICS. Unlike all of these other actors, moreover, the middle powers do not have coordinating group. They operate as classic ‘loose’ countries, with varying degrees of diplomatic niche capacity and levels of political/policy engagement.

This pattern of differentiation plays down the images of contested global governance. It does reveal, nonetheless, how different the G20 is from traditional concerts. Without the ability or willingness to make trade-offs on policy, apart from some areas of financial regulation, the G20 has lost momentum, caught between the roles of a crisis committee and a putative steering committee.
Still, in other ways, the G20 is a pivotal indication of the state of global governance, embedded as a functional, ‘institutional light’ kind of mechanism in terms of contemporary global governance.\(^{36}\)

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From the New International Economic Order to the G20: how the ‘global South’ is restructuring world capitalism from within

PHILIP S GOLUB

ABSTRACT In the early 1970s the G77 and the Non Aligned Movement (NAM) challenged the material and intellectual pillars of the postwar liberal capitalist system through collective action at the UN to establish a New International Economic Order (NIEO). The aim was to complete the ‘emancipation’ of the ‘global South’ by creating binding institutional frameworks, legal regimes and redistributive mechanisms correcting historically constructed core–periphery disparities. That ambitious effort failed in the face of ‘Northern’ resistance and national segmentation within the NAM. Today re-emerging states of the global South are engaged in a more successful effort to gain voice and alter international hierarchy by claiming a central place in the world capitalist system and restructuring it from within. The vertical late-modern world system centred in the Atlantic and ordered by the ‘West’ is thus gradually giving way to a polycentric international structure in which new regional and transnational ‘South–South’ linkages are being formed. This paper critically reviews the transformation and argues that, while it is creating long sought-for conditions of relative international equality, it has also dampened the emancipatory promise of the anti-colonial struggle.

In the early 1990s, when many observers were anticipating a new cycle of ‘Western’ ascendancy, Janet Abu-Lughod presciently hypothesised the end of the era of ‘European/Western hegemony’ and a ‘return to the relative balance of multiple centres’ that preceded Euro-Atlantic imperial globalisation in the 19th century. This systemic change, which she situated in long historical perspective and compared to the successive restructurings that led to the Eurasian-centred 13th century world system and the early modern Atlantic system that opened the way for European world hegemony, involved the re-emergence of Asia and the Pacific, which would ‘supplant the Atlantic as the zone of expansion and dynamism in a world system that has been almost totally

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globalized’.1 Jack Goody contemporaneously argued that the historic pendulum, which had swung to the ‘West’ in the modern and late-modern periods, was swinging back to the ‘East’ as Asia reclaimed the systemic role long held before the age of Western empire and industry.2 While it is implausible that Asia or other postcolonial world regions will soon supplant the Euro-Atlantic countries at the centre and apex of a new postmodern global hierarchy, the movement towards a polycentric and plural world system has indeed quickened over the past decade-and-a-half, as major countries/regions of the ‘global South’ have consolidated their position as dynamic poles of the world capitalist economy, developing regional and transcontinental linkages that are reconfiguring global trade, investment and financial flows.

The systemic restructuring has primarily been driven by East Asia, which has experienced a process of economic expansion and ascent, the intensity, spatial scope and duration of which have been remarkable by historic standards. Beginning with Japan’s revival in the 1950s and 1960s, a regional development dynamic was set into motion that spread successively, in wave-like formations, to the Newly Industrialised Countries (NICS) of North East Asia (South Korea, Taiwan), the re-emerging countries of Southeast Asia (ASEAN 4) and thence, over the past three decades, to China. Varying initial conditions, historic pathways and state capabilities have produced uneven country-to-country developmental outcomes, distinguishing first and second wave industrialisers from third and fourth wave countries that are climbing the ladder but have yet to catch up with the most developed economies. Nonetheless, a coherent process has been at work, unfolding over time and space to most of the region, with global effects. East Asia’s aggregate share of constantly increasing world GDP (in purchasing power parity—PPP), which was negligible in the 1950s, has thus risen from around 10% in 1980 to 25% in 2010. China’s share has grown from 2% to over 14%. Over the same time frame PPP per capita GDP in current international dollars was multiplied by 12 in South Korea, by over seven in Singapore and Thailand, by six in Malaysia and Indonesia, and by 33 in China (from $250 to $8380 in 2011)—a spectacular increase that reflects the intensity of growth and its cumulative impact. By 2020 East Asia’s share of world GDP (PPP) is expected to reach 32%, with China accounting for nearly two-thirds of the total. In South Asia India’s world share has risen from 2.5% to 5.5%, and per-capita GDP has increased by a factor of 14, from $419 dollars to $3600 dollars today (in current international dollars PPP). Asia’s aggregate share of world GDP (PPP) is thus projected to approach 40% in a few years. When other major re-emerging countries and world regions—Turkey, Brazil, Mexico, South Africa, etc—are factored in, the global South’s world share in 2020 will exceed 50%.3

Over the past decade and a half East Asia has thus been the main source of world growth and has emerged as the heart of new and increasingly thick transcontinental ‘South–South’ trade and investment linkages. Growing financial power derived from cumulative surpluses is another important feature of the rebalancing of the world economy, which has been accentuated by the deep and probably durable economic crisis in the European Union and the continuing economic problems of the USA. The politics of re-emergence has lagged behind economics, but a gradual reordering of world politics is also underway, as seen
in the growing voice of the global South in international public organisations (IMF, WTO) and clubs (G20), their activism in various issue areas of world politics, and incipient efforts to institutionalise regional and global linkages bypassing traditional centres of authority (IBSA, Shanghai Cooperation Organisation). Systemic change at political level is evident, conversely, in the diminishing relevance of old clubs (the G7 or G8) and the difficulties encountered by the formerly dominant countries and blocs (NATO) in setting the global agenda or establishing and maintaining international regimes reflecting their preferences. We are, in short, witnessing the end of the long historical cycle during which wealth and power were concentrated in the hands of a small number of Euro-Atlantic states. The hierarchical international system constructed in the late modern period that was centred in the north Atlantic and ordered by the Western powers, and which instituted a global division of labour dividing the world into dominant cores and dependent peripheries, is giving way to a decentred world system with plural sources of authority.

The argument of this paper is that the major actors of this systemic shift are realising what generations of nationalist anti-colonial and postcolonial leaders had fought for—upward mobility and greater international equality through a redistribution of world power at economic and political levels—by embracing and restructuring the world capitalist system from within rather than by exiting or challenging it from without. At the same time the waning of colonial/imperial modernity and of the conceptual categories that previously organised knowledge of world social space, have generated an intellectual and normative predicament: the role of postcolonial states as drivers of a new phase of capitalist globalisation has blurred and in some cases completely erased the emancipatory message and critical vision of early anticolonial nationalism. To make that case, I compare current change to the early efforts of the Non-Aligned Movement (NAM) in the 1950s to catch up with the West and gain voice, and to the ambitious but failed mobilisation of the G77 and the non-aligned countries to obtain fundamental changes in the global order in the 1970s (the New International Economic Order—NIEO). I then examine the specific historic circumstances that allowed some developmental states to harness transnational flows to national institutions and channel them to meet modernisation objectives, and the way in which this translated into a systemic movement leading to the current global restructuring. The paper concludes with a brief critical discussion of the some of the problematic dimensions of re-emergence: the social and spatial unevenness resulting from capitalist transformation, the ideational shift manifest in the quest for wealth and power, and the waning of the emancipatory perspectives of earlier revolutionary and reformist anti-colonial outlooks.

1950–75: the elusive quest for development and autonomy

Since the collapse of the European imperial order after the Second World War, the primary international challenge for societies from the global South has been how to achieve effective autonomy and de facto rather than de jure equality. While initial conditions varied considerably from country to country, with greater or lesser levels of industrialisation and differing state capacities, all
postcolonial states, including the states of Latin America that had achieved independence in the early 19th century but remained caged in the magnetic field of informal empire, faced the problem of filling independence with substance and overcoming developmental hurdles rooted in historically constructed patterns of dependence and inequality. Despite the promise of self-determination, universal ‘well-being’, ‘equal rights’ and ‘economic and social progress and development’ contained in the United Nations Charter, living standards in ‘peripheral’ world regions in the early 1950s, as measured by per capita output, were on average only marginally better that they had been in 1750, while their relative share of world manufacturing (6.5%) was five times lower than it had been in 1860 (36.6%). By the early 1970s that share had increased to 9% in a much expanded world economy, thanks to state-led industrialisation strategies (import substitution industrialisation), but nonetheless remained inferior to 1900 levels, with most gains concentrated in a very few states: in 1970 South Korea, Taiwan, Singapore, Hong Kong, Brazil and Mexico accounted for nearly a third of industrial production, outside of China, in the global South. Overall, independence had not translated into a fundamental improvement of the relative economic position of most postcolonial states.

The various strands of dependency theory provided a coherent and convincing account of why this was the case. Structuralist and neo-Marxist dependency theory both emphasised the persistence of systemic asymmetries and constraints that reproduced international hierarchy and hollowed out the sovereignty of states that remained caged in subordinate positions in the world capitalist economy. Dependency relations constructed in the colonial era continued to operate through world-level mechanisms—global market forces, production and monetary structures, unequal terms of exchange, etc—that generated structural vulnerabilities and inhibited or limited the development possibilities of societies trapped in a global division of labour suiting the needs of the historically dominant Euro-Atlantic core. Theotonio Dos Santos concisely defined dependency as ‘a situation [deriving from an historical condition] in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected’. The result was the persistence of core–periphery polarity as a result of the concentration of capital, power and knowledge in the North and the asymmetric positioning of states in the international division of labour. For neo-Marxist dependency theorists this situation implied that autonomy could only be achieved outside the dominant system, through exit and revolution. Hypothesising ‘dependent development’, structuralists such as Fernando Cardoso envisioned the possibility of gradually altering existing structures through protective measures and creating more equal patterns of international relations, making ‘development’ possible.

The post-Independence development impasse led to a sharp North–South confrontation in the early 1970s. Altering the post-1945 world order became the central concern and aim of the constellation of postcolonial leaders, international public servants (UNCTAD), theorists and activists who initiated the drive for an NIEO in the late 1960s, which culminated in the adoption of the Declaration on the Establishment of a New International Economic Order at the General Assembly of the United Nations in May 1974. The aim of this programme,
which grew out of the 1955 Bandung conference of non-aligned states but was far more ambitious and intellectually coherent than earlier non-aligned efforts, was to create and institutionalise a global redistributive order founded on new binding rules that would ‘correct inequalities and redress existing injustices… eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations’. The demand for an NIEO put dependency theory at centre stage. As Robert W Cox emphasizes, it ‘precipitated a debate about the real and desirable basic structure of world economic relations’ that was not limited to interstate issues but ‘ranged inevitably into domestic and transnational structural issues’. At epistemological level, it ‘challenged the intellectual hegemony of liberal economics and its claims to an exclusive “rationality”’.

The Declaration prefigures later global governance and ‘alterglobalisation’ debates and constitutes a historical marker against which current transformations can be assessed. Made in the midst of the world economic crisis of the early 1970s, the Declaration offered a comprehensive programme for a negotiated restructuring of the postwar world economic order. It called for: a reform of the Bretton Woods institutions and the international monetary system; the establishment and institutionalisation of mechanisms to correct terms of trade imbalances between the North and the South; the implementation of preferential and non-reciprocal arrangements for ‘developing countries in all fields of international economic cooperation’; the creation of frameworks of regulation and supervision of transnational corporations to secure the ‘full permanent sovereignty of every State over its natural resources and all economic activities’; the right of states to nationalise foreign firms and to exercise control over resource exploitation; the facilitation of technology transfer and the promotion of endogenous technological development; and the extension of assistance to the ‘least developed countries’, as well as the strengthening of ‘mutual economic, trade, financial and technical cooperation among the developing countries’. This coherent set of measures was designed to secure the ‘sovereign equality of States’, correct historically inherited disparities, and achieve ‘even and balanced development’ with a view to the ‘liberation’ and ‘emancipation’ of the peoples of ‘developing’ nations.

None of these major objectives was achieved, however, much less the underlying ambition to restructure world order. Although it continued to reverberate in UN commissions and academic debate in following years, the NIEO declaration and programme of action represented the high point of postcolonial collective action to construct an international institutional architecture conforming to global South preferences.

Structural constraints: the defeat of ‘peripheral Fordism’

The effort failed for a number of reasons, three of which are salient: the resistance of the USA, changes in world monetary conditions in the late 1970s, and the fragmentation of the NAM along national lines. The NIEO was accurately interpreted by spokespersons of the dominant powers as a ‘fundamental
challenge to the extant liberal order’, hence to Euro-Atlantic or Northern
hegemony. Henry Kissinger brusquely dismissed the ‘so called Third World’s’
efforts to ‘disrupt the post-war order’. In a particularly vehement attack, Harry
Johnson of the University of Chicago denounced the NIEO as ‘propaganda’ and
a throwback to ‘Marxist theories of imperialism’ and/or 19th century German
mercantilist thought. More forward-looking internationalist currents within
Northern elites, regrouped in the Trilateral Commission, recognised the need to
make adjustments in world economic relations to ‘manage interdependence’. Nonetheless, their primary concern was to preserve the pillars of the US-centred
liberal world system, seen as under threat. In 1975 the Chairman of the
Commission, Zbigniew Brzezinski, warned:

The less-developed countries are now tempted to become more and more
assertive. A number of their leaders have noted that the year 1973 will go
down in history as equal in importance to the year 1905. That latter
date marked the first time a European power had been defeated by a
non-European power, and this is what gave the Russo-Japanese War its
historical significance…inclined to be more assertive and confident of their
power, [these countries] may be tempted to pursue policies of confrontation
rather than cooperation. We could thus move into a phase of international
politics in which there will be intensifying confrontations between the
advanced and the developing countries.

Arguing for adjustments rather than structural change, he suggested that the
‘advanced countries [should] consult closely and undertake joint initiatives,
ensuring on an ad hoc basis those developing and particularly energy-producing
countries which are capable and willing to become partners in such an
architectural endeavor’.

The 1973 oil prices increases engineered by OPEC constituted an ostensible
‘Third World’ success in gaining mastery over national resources. Yet it gener-
ated a fracture in the global South between energy producers and consumers,
who were obliged to finance their imports through debt or foreign aid. Reflect-
ing US strategic leverage over the petro-monarchies, Gulf surpluses, which
accounted for 75% of total OPEC surpluses, were mostly parked in US banks and
US treasury bonds. Only relatively small volumes of ‘petrodollars’ were actually
channelled back to the least developed countries, whose balance of payments
problems augmented their vulnerability. The result was a tightening of IMF
control and hence US structural influence over the economies of the
energy-dependent countries of the global South. Neither the USA nor Europe
seriously entertained the idea of a redistributive grand bargain responding to the
core concerns of the framers of the NIEO. While the USA actively sought to
divide the South, the Europeans responded with some conciliatory measures,
such as the 1975 Lomé Convention, which gave former African, Caribbean and
Pacific colonies preferential access to the European market. But these actions
were less designed to stimulate development or correct historical disparities than
they were to maintain the precarious control of former imperial states over the
parts of the South they could still influence. Playing on heterogeneity in the

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G77, notably divisions between oil producers and consumers, these responses successfully diluted the core claims of the NIEO and dissipated its political impact.

Two pivotal changes occurred in the late 1970s which effectively ended the challenge to liberal capitalist hegemony. The first, which matured slowly and the effects of which only became fully apparent in the 1990s, was the decision taken in 1978 by the post-Mao Chinese leadership to embark on a programme of gradual domestic liberalisation, economic opening and internationalisation that led to China’s integration into the world capitalist economy, discussed in the next section of the paper. The second was the decision taken by the US Federal Reserve in 1979, for domestic and international reasons, to restore monetary control through a sustained rise in interest rates. The US decision changed the conditions of operation of the world economy and revealed the persisting structural power of the USA, that is, its ability to shape international frameworks and obtain preferred outcomes thanks to its preponderant position in the world economy. Demonstrated in the Latin American debt crisis of the late 1970s and early 1980s, which ushered in a decade of economic stagnation and declining living standards, decisions taken in a handful of core countries provoked systemic effects over which the global South had neither voice nor control. Intentionally or not, the 1979–83 monetary shock brought Latin American countries, which had contracted large volumes of dollar denominated debt, to their knees, calling into question regional ‘neo-corporatist’ developmental strategies, or what Alain Lipietz of the French school of regulation calls ‘peripheral Fordism’, leading to the abandonment of import substitution strategies and to the ‘asphyxiation of industrialization’.15

Although these outcomes underscored the theoretical pertinence of critiques focusing on the structural dimensions of dependency and demonstrated the practical urgency for an NIEO, the overall effect of the ‘stunningly successful monetarist counter-revolution’ was to end the challenge and ‘tame the rebellious South’.16 In 1985 Stephen Krasner described the resulting North–South configuration as follows: ‘The gap between Northern and Southern capabilities is already so great that even if the countries of the South grew very quickly and those of the North stagnated (an unlikely pair of assumptions in any event), only a handful of developing countries would significantly close the power gap within the next one hundred years.’17 This sweeping conclusion has, of course, been thoroughly disconfirmed by more recent evolutions but it had some pertinence at the time it was formulated, coinciding with the spread and ascendancy of neoliberalism and the ‘Washington Consensus’. Having neutralised the NIEO challenge, in the 1980s and 1990s the USA, along with European states and a constellation of public and private international actors, set and enforced a global liberalisation regime that was directed against state-led developmental models and which tightened constraints on most, though not all, postcolonial states. ‘Intense political pressure was exerted by advanced industrialized countries on developing nations to open their economies...along a variety of dimensions, [their] national economic regulations were called into question’.18

US and European behaviour during the 1997–98 ‘Asian financial crisis’ should be read in this light. In much the same way that the 1980s debt crisis in
Latin America created the conditions for the dismantling of peripheral Fordism in South America, the regional crisis in East Asia, which spread from the open and more vulnerable economies of Southeast Asia to South Korea, with knock-on effects in Japan, generated an opportunity for the USA and Europe to weaken competitive developmental state models and make East Asia conform to the post-cold war hegemonic neoliberal regime. Rather than coming to the support of distressed (allied) states, the US Treasury waited on the sidelines and then, with European consent, vetoed Japan’s initiative to create an Asian Monetary Fund (AMF) to pool the resources necessary to stem the liquidity crisis generated by massive and time-compressed capital outflows. This was motivated by concerns that the AMF might become the kernel of an autonomous regional financial system rivalling the IMF, which was called in only when it became apparent that contagion was spreading to global markets and which then imposed characteristically harsh structural adjustment programmes designed to open and liberalise local markets. In the USA the crisis was interpreted as a defining moment in the balance of world economic power: it had supposedly ‘destroyed the credibility of the Japanese or East Asian model of economic growth’ and constituted, in Alan Greenspan’s formulation, a decisive defeat of state-led developmental efforts and ‘an important milestone in what evidently has been a significant and seemingly inexorable trend toward market capitalism’. This performative statement has, like Krasner’s earlier assessment, been turned upside down by the rising role of East Asia in the world political economy, and by the current, profound and probably durable crisis affecting the economies of the West.

Restructuring global capitalism from within

This historical background must be kept in mind when assessing and theorising the systemic shift that is now occurring. How the South, or at least major parts of it, moved from what appeared to be thorough defeat and marginalisation to the increasingly central position it now occupies in the world political economy remains a major and much disputed question. Why is the pendulum swinging? The influential answer offered by world systems theorists has been that the rebalancing or decentring towards Asia in recent decades reflects the slow decay of the American hegemonic system instituted in 1945, which entered a long phase of terminal decline during the 1970s and from which it recovered only partly when the USSR collapsed. The underlying assumption is that the world capitalist system is characterised by regular patterns of hegemonic ascent, supremacy, decline and succession, reflecting the cyclical rhythms of capitalist ‘development’. This succession process, which until now has only occurred within the Euro-Atlantic core, is generated by moments of systemic crisis, or what Giovanni Arrighi calls ‘systemic chaos’, in which ‘whichever state or group of states is in a position to satisfy the system-wide demand for order is presented with the opportunity of becoming world hegemonic’. China’s capitalist ‘rise’ would thus be latest in a series of successive restructurings and hegemonic transitions since the emergence of the modern capitalist world system in the 16th century.
The explanation given here is more historically contingent. It cuts across three interrelated dimensions of East Asia’s re-emergence. First, unlike the 19th century European imperial system, the post-1945 US-centred capitalist order did not produce uniform dependency and underdevelopment. For reasons related to US strategic objectives during the first decades of the Cold War, the US hegemonic system in Northeast Asia authorised upward economic mobility for key allied states that were integrated in the internationalised US security and economic system and that, like western Europe, became recipients of strategically driven US investment. Unlike other postcolonial world regions, where the US encouraged authoritarianism without development, in Northeast Asia the USA helped to erect and sustain Bureaucratic Authoritarian Industrializing Regimes (BAIRs), in Bruce Cumings’ apt formulation, which mobilised society behind overriding developmental objectives. Strong bureaucratic states pursuing neo-mercantilist industrialisation strategies were tolerated, indeed nurtured, so long as the BAIRs remained docile subordinate components of the USA’s regional political economy. As part of their de facto cold war compact with the USA, the Northeast Asian allies traded their political sovereignty and strategic autonomy for unrestricted access to the US market. The USA’s cold war strategy required a belt of secure and prosperous states in Northeast Asia to contain the USSR and the PRC (until the late 1960s Sino-Soviet split), and to curb revolution in Southeast Asia. As Cumings emphasises, the understanding on the US side was that ‘Japan’s sun was to rise high but not too high; high enough to cause trade problems for the allies in declining industries’ but certainly not so high as to becoming a competing centre of the world capitalist economy.21 The same reasoning applied a fortiori to South Korea and Taiwan. Regional war-making was a determining factor propelling the rise and consolidation of the BAIRs, which became platforms for the USA. For Japan the Korean War was a ‘gift of the gods’, in the words of then Prime Minister Shigeru Yoshida. It fuelled Japan’s 1950s economic revival, US demand and infrastructure investment, creating favourable conditions for the mobilisation of endogenous productive capabilities. In like manner the Vietnam war stimulated the South Korean economy’s rapid growth and industrialisation in the 1960s and 1970s. Third wave industrialisers in Southeast Asia, likewise conservative authoritarian regimes, were favoured to a lesser degree but also became platforms for US strategic investment (and, more significantly, of Japanese industrial investment in the 1980s). The post-1945 US hegemonic regime in East Asia thus deviated from classical imperial systems, in which core–periphery structures generated under-development. In the 1980s regional economic development took on a life of its own and became increasingly autonomous, as evidenced in deepening regional integration and declining levels of single market dependence on the USA.22 China, which was not a part of the hegemonic system and therefore enjoyed greater political autonomy than US allies, who were deeply enmeshed in cold war security structures, is the latest and by far the largest exemplar of an East Asian bureaucratic authoritarian industrialising regime.

Second, these developmental state forms account for the fact that some countries with strong state capacity and instruments to govern the markets
have proved more capable than others in the context of post-cold war
globalisation to harness transnational flows to national institutions and
national development purposes. This is of course a matter of theoretical dis-
pute. Authors such as David Harvey or Saskia Sassen read local
transformations as simply derivative of a new phase of capitalist primitive
accumulation, or ‘accumulation by dispossession’, on a world scale, with
globalised capital seeking and obtaining ‘external sources’ for the pursuit of
accumulation.23 Other authors argue that export oriented industrialisation and
internationalisation are generating new forms of Southern dependency.
Jianyong Yue argues, for instance, that ‘the interaction of China’s market
“socialism” and global capitalism generated a powerful self-reinforcing pro-
cess that set China on a dependent path of development…characterised by a
technology-less industrialisation’.24 Both critiques emphasise global constraints
and minimise the relative autonomy and endogenous possibilities of states
under conditions of globalisation. Outcomes in third wave industrialisers in
Southeast Asia (Malaysia, Thailand, Indonesia) do not really support either
conclusion (nor do current trends in Brazil). Internationalisation and capitalist
transformation have generated new social stratifications but have not led to
international entrapment. Although questions do remain regarding their future
development trajectory, notably whether they will able to replicate the
Japanese, South Korean and Taiwanese successes, these countries have seen
their autonomy increase and their living stands rise significantly as part of
the wider regional development dynamic.

This is also true of China, which, because of its scale, nonetheless constitutes
a special case. Gradual integration into the world capitalist economy and
export-led industrialisation modelled on the neo-mercantilist strategies of earlier
East Asian developmental states has generated intense growth and real GDP
gains over long periods. Capitalist transformation has simultaneously led to
spatial polarisation, large-scale continental mass migrations, sharp new social
stratifications and major problems of environmental sustainability linked to
energy use and urbanisation.25 Sustained growth, fuelled by transnational
investment flows, has been made possible by the mobilisation and exploitation
of a vast subordinate labour force, notably women concentrated in low value
added activities, raising crucial issues of gender and class. While they highlight
the need for vigorous corrective measures, without which the country’s devel-
opment is likely to be compromised, these problems do not call into question
the fact that the strategy followed since 1978 has been broadly successful.
China’s pathway bears some analogies to US economic expansion in the 19th
century, which was fostered by transnational flows and relied on the exploita-
tion of slave labour until the mid-19th century and of low wage immigrant
labour in the latter part of the century.26 This comparison is not meant to
justify disciplinary Chinese labour policies—although there are currently some
signs of relaxation—much less the authoritarian regime that is engineering
capitalist transformation. It merely points to the fact that China, through the
exploitation of its internal peripheries, is following the path of earlier successful
capitalist powers.
The third dimension is regionalisation and the intensification of transnational South–South trade and investment flows. Regionalisation has been an important feature of East Asian re-emergence. Initiated by the relocation of Japanese manufacturing capacities in the 1980s, which generated a concatenated division of labour in East Asia, regional economic integration has deepened over the past decade and a half. Intra-regional trade as a share of total trade has thus risen constantly over past decades (by 20% in 1970, 32% in the early 1980s, 47% in the early 1990s, 54.8% in 2000 and 58.5% in 2007). An unintended consequence, regionalisation was spurred forward by opportunistic and coercive Western behaviour during the 1997–98 crisis. Washington’s veto of Japanese proposals for the above-mentioned AMF that would have pooled resources to help countries restructure regional economies along neoliberal lines were interpreted as thinly disguised efforts to curb developmentalism and gain access to valuable local resources at bargain basement prices. These short-sighted actions generated nationalist backlashes and stimulated moves towards protective monetary regionalism. US and IMF policy pushed the East Asian policy elites to consider ‘the benefits of regionalism without the Caucasians’. Mobilising anti-colonial repertoires, conservative nationalist leaders such as Mohamad Mahatir of Malaysia and Thaksin Shinawatra of Thailand began advocating the replacement of the dollar in regional trade. In 1999 ASEAN invited China, Japan and the Republic of Korea (ROK) to create a common market. In 2000 the Chiang Mai Initiative led to bilateral swap arrangements among central banks and was understood as a first step towards the creation of a regional financial institution to pool currency reserves. In 2003 ASEAN+3 announced the establishment of the Asian Bond Fund (ABF), initially capitalised at $1 billion, designed to channel reserves held by Asian central banks back into the region, and to gradually allow the region to replace the dollar with a basket of Asian currencies. In 2005–06 senior officials at the Asian Development Bank began pushing for the creation of an Asian Currency Unit (ACU) as a step towards monetary union. The PRC played a crucial role in regional recovery by choosing not to devalue the renminbi and by absorbing a growing share of regional exports. Over the past decade the PRC has become a key actor in regionalisation at both trade and monetary levels, supplanting Japan as the gravitational core of regional integration. Chinese annual GDP growth averaged over 9% between 1997 and 2010 and, in the aftermath of the crisis, trade and investment flows between China and the rest of Asia grew significantly. Since the late 1990s regional trade with China has been growing faster than with the USA: Japan’s imports from China already exceed those from the USA and Japanese exports to China have been steadily rising. This same trend is apparent in South
Korean, Thai, Malaysian and Singaporean trade flows. An IMF study noted in 2007:

[China has] displaced the United States as the largest export market for an increasing number of Asian countries. It has also been pivotal in boosting intraregional trade and Foreign Direct Investment (FDI), particularly in the form of intermediate goods channelled through multinationals as part of cross-border chains...The potential expansion of China's domestic market creates opportunities for the regional economies... to produce higher-tech goods that China is unlikely to be able to produce domestically in the near future.32

Chinese leaders thus interpret the 1997–98 crisis as a turning point: 'The process of the East Asian cooperation has been consolidated day by day since then [and is now] based on a multi-layered, multi-faceted structure'.33 Recent moves to gradually internationalise the renminbi and use it in regional transactions, such as the June 2012 Japanese–Chinese accord to trade in their currencies rather than the dollar,34 represent a further step in this direction.

Similar though less accomplished efforts towards regional integration have been occurring in South America since the erosion of the Washington Consensus in the 1990s and the weakening of the authority and hold of the international financial institutions over the continent. Regional cooperation to promote development and integration is being institutionalised, as seen in the expansion of the Common Market of the South (Mercosur, or Mercosul) and the 2007 decision to create the Banco del Sur (Bank of the South) whose stated purpose is to promote 'a space devoted to the promotion of economic and social development... [and] to the convergence and complementarity of processes of economic integration'. Much like East Asian protective regionalism, the Bank was conceived as the seed-form of autonomous institutions not subject to the US-cum-Western-dominated international financial institutions. This was followed in May 2008 by the founding in Brasilia of the Union of South American Nations (Unasur) a political and economic community regrouping the countries of the Mercosur and the Andean Community, and more recently the Community of Latin American and Caribbean States (CELAC). Intraregional trade is still relatively low (25%) when compared to East Asia but, as in East Asia, single-market dependence on the USA has been gradually decreasing as a result of diversification of trade and investment flows and new transnational South–South linkages.

These new linkages constitute an important feature of the current restructuring of world capitalism around new poles. Transnational South–South flows bypassing the historic centres of world capitalism have intensified in recent years. China has become the pivotal, though not the sole, actor in the new flow patterns. Trade between China and all other postcolonial world regions grew significantly over the past decade and half. While the share of South America, Africa and South Asia in China’s total trade remains relatively small, China’s share in their total trade has become strategically important. The space is not available for a comprehensive review of the new transcontinental flows, but the
pattern is clear even when using limited data sets. Over the past two decades Asia has become Brazil’s main trading partner, accounting for 30% of its exports and 31% of its imports. Exports to China, as a share of total exports, have risen from 0.9% in 1992 to over 17%. China has thus become Brazil’s second trading partner, just behind the European Union (21%) but well ahead of the USA (10%). Argentina’s exports to China, as a share of total exports, have likewise risen from 1.1% to 9.7%. Similar patterns are apparent for Africa, where South Africa’s export share to China has risen from 1.8% in 1998 to over 12%, while imports rose from 3% to 15%, and Nigeria’s exports from 0.5% to 6.9%. In South Asia the share of Indian exports to China has risen from 2.9% to over 10%, and imports from 2% to 12%. In East Asia the phenomenon is more pronounced since China constitutes the hub of a constantly expanding and increasingly complex regional trade network. China thus accounts for 37% of Taiwanese exports, 26.6% of South Korean exports, 17% of Malaysian exports, 16.2% of Filipino exports, 15% of Thai exports and 12% of Indonesian and Singaporean exports. South–South transnational flows are not limited to China and involve multiple network linkages between Brazil, Africa, India, Southeast Asia and Turkey. Still at an incipient stage, some South–South political institution building outside of China is also occurring (eg IBSA).

The overall pattern points nonetheless to the constitution of a Sino-centric transcontinental trade network that could in future be underpinned, through the gradual internationalisation of the renminbi, by a currency and credit system that is likely to be complementary rather than alternative to the dollar and the euro. As noted earlier, China’s emerging systemic role can be compared to that of the USA in the late 19th century, when it became a semi-autonomous core of the late-modern world system. The USA became the world’s leading manufacturer in the 1890s and began to reshape the conditions of operation of the world economy. By the turn of the century it had become a new source of international investment and credit. China, a little more than a century later, is in like manner gradually becoming an ‘active unit’ of the world system, increasingly shaping the global environment rather than simply being conditioned by it.

**Conclusion: where to go from here?**

For reasons outlined above the new globalisation cycle that began in the late 20th century has led to an unexpectedly rapid, albeit still incomplete, rebalancing between ‘East’ and ‘West’ and ‘North’ and ‘South’. East Asia has been the main driver of a systemic change that is leading to new transnational linkages between Asia, Africa and Latin America. These new patterns of interaction are part of a broad process of gradual decentring and restructuring of the world economy that, at the political level, is leading to a diffusion of power. Domestic or international events, for instance a hypothetical but not unthinkable Chinese overreach in the South China Sea leading to sustained inter-state tensions, might slow but are unlikely to halt a transformation that is embedded in globalisation and has become one of its driving forces.

Postcolonial re-emergence raises important questions of meaning and purpose for the West but also for the re-emerging countries that have been dynamically
restructuring world capitalism from within. If the rebalancing conforms to one of the historic aims of generations of anti-colonial leaders and thinkers, gaining upward mobility and achieving sovereign equality, the way in which it is occurring represents a rather sharp break with the past. Anti-colonialism still constitutes a component of the identity and discourse of the re-emerging South, including in conservative nationalist circles that read the current transformation in oppositional cultural terms. But unlike the first generation of postcolonial leaders, who aimed for revolution or sought to invent a ‘Third Way’ between capitalism and communism, and the framers of the NIEO who challenged the intellectual and material foundations of the post-1945 world order, the actors of the current shift in global power relations are claiming a central competitive place in the world capitalist system that their predecessors had attempted to either reform or supplant. The success of that claim, and their consequent implication in current and future global system management, has dampened and in some cases entirely submerged the broader emancipatory or universalistic dimensions of the long struggle for independence, equality and justice.

This phenomenon is more pronounced in Asia, where the state has come to ‘command the banner of nationalism’, to borrow Fernando Cardoso’s apt formulation, for purposes of domestic legitimation and/or the assertion of international power goals, than in South America, where the forward-looking content of anti-colonial nationalism still holds some sway. In South America the regional political reaction to the ‘lost decade’ and subsequent neoliberal ‘reforms’ has taken a different route than the conservative reactive nationalism in East Asia. As Arturo Escobar notes, ‘Latin America was the region that most earnestly embraced neoliberal reforms, where the model was applied the most thoroughly, and where the results were the most ambiguous’. The response was the political affirmation of plural lefts that were shaped by earlier debates and struggles over non-alignment, dependency and development, and which are now seeking to construct more socially inclusive development models at domestic level and new patterns of cooperation at regional and international levels. The results on both fronts have been ambiguous, however. High, though somewhat declining, levels of inequality at domestic levels underscore the difficulty of transforming social structures and hierarchies built over long periods. At world level challenging the status quo—the Western centred order—has yet to lead to a ‘positive affirmation of an alternative ordering of the real’. The new determining roles that they are destined to play raises the normative question, currently unanswered, of what kind of world the new capitalist powers want to live in, now that some of them are, at last, achieving international equality.

Notes

2 J Goody, The East in the West, Cambridge: Cambridge University Press, 1996. Initially in this paper I use quotation marks for ‘West’ and ‘East’, ‘North’ and ‘South’ to highlight what Edward Said called their lack of ‘ontological stability’. As Said argues, these concepts are ‘supreme fictions’ of the orientalist gaze, constructs that generate otherness rather than knowledge. For like reasons, I emphasise the concept of re-emergence rather than emergence, since many if not most of the postcolonial countries currently involved in
systemic transformation had ‘emerged’ before they were submerged during the ‘great divergence’ in the 19th century.


17 Krasner, Structural Conflict, p 4.


20 G Arrighi, The Long Twentieth Century; London: Verso, 1994. Arrighi identified Japan rather than China as the hegemonic contender, but it is the general logic of his argument regarding systemic transitions that interests us here.


25 The scale of urbanisation in China is historically unprecedented: nearly half the population lives in urban areas today, against 10% in 1900 and less than 35% in the early years of the capitalist transformation. By 2030 the UN expects that 70% of China’s population, or 950 million people, will be living in urban agglomerations.

26 See Golub, Power, Profit and Prestige.

27 See http://aric.adb.org/indicator.php. Statistics vary from one international institution to another. The IMF gives lower estimates than the Asian Development Bank (51.9%) but highlights the same general phenomenon. IMF, Regional Economic Outlook Asia Pacific, Washington, DC: IMF, October 2007. Although a significant share of regional trade is in intermediate goods for final destination export to the USA, Europe and Japan, it has allowed for technology transfers and has stimulated endogenous growth factors in East Asia.

29 ‘The Future of Asia’ conference held in Tokyo in June 2003 demonstrated convergence around this objective. The then Thai Prime Minister, Thaksin Shinawatra, declared: ‘Funds held by Asian countries, which account for about half of the world’s foreign currency reserves, used to be invested mainly in the US and Europe. Now funds should head toward Asia thanks to the birth of an Asian Bond Market... Although the Asia Bond Fund will start out in US dollars, we hope to shift to Asian currencies in the future’. The then Malaysian Prime Minister Mohamad Mahatir asserted: ‘We will all benefit from the Asia Bond Market because it is Asian and is in our own interest, not a device for somebody else somewhere and imposed on us. Initially the bonds should be denominates in the US dollar but we should move away from the US dollar in the future’. The former Japanese prime minister Ryutaro Hashimoto seemed to be thinking along parallel lines: ‘The lessons learned from the Asian currency crisis are producing good results’. See ‘The Future of Asia 2003’, Nikkei Weekly, 21 June 2003.

30 ‘Asian finance ministers seek common currency’, New York Times, 5 May 2006. ‘The Asian Development Bank has been pushing the idea of an Asian currency unit, or ACU, during 2012. The unit’s value would be set by an index of participating currencies. The idea has gained popularity among several Asian finance ministers as a step toward harmonising regional monetary policies. The bank’s Japanese president, Haruhiko Kuroda, a supporter of an Asian monetary union, had pledged to propose the creation of an ACU at the meeting in Hyderabad, but reportedly held back in light of opposition from Washington.’


33 ‘Further reciprocal cooperation to build a harmonious East Asia’, speech by Vice Minister of Commerce, Yi Xiaozhun, 26 May 2008, reported by the People’s Daily, at www.english.peopledaily.com.cn/90002/93687/93689/6418402.html


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Rising powers and global governance: negotiating change in a resilient status quo

MILES KAHLER

The significance of the large emerging economies—Brazil, India and China—for global governance in coming decades is rarely contested. Each of these countries has placed large bets on integration with the global economy; each aims for a larger regional and global role. Strong economic performance during the great recession of 2008–2009 and its aftermath has only reinforced their claims for international prominence. The implications of their growing influence on the mosaic of institutions and actors that define global governance are, however, disputed.

Two divergent views of the future are grounded in the implications of economic convergence for international order. For most economists, the convergence of these populous developing countries with the industrialized countries—in absolute and per capita terms—is one of the great success stories of recent decades. Given broad commitments made by these large emerging economies—the BICs—to engagement with the global economy and existing international institutions, the outlook for future global governance is benign: why should governments endanger the institutional formula that has brought them success? A more pessimistic view of convergence concludes that eras of power transition present a heightened risk of conflict, as incumbents react to stave off relative decline in the face of confident challengers. From this perspective, convergence introduces a greater risk of conflict and disorder. Rising powers will aim to place their imprint on reconstructed global institutions, and that stamp will differ markedly from a status quo supported by the incumbent powers.

Deciding between these competing images—nascent supporters of existing global governance and rising challengers promoting a disruptive agenda of change—requires a careful empirical examination of the causal links that would support either view. Negotiating behaviour provides key evidence for such an investigation. The preferences of the emerging powers in respect of global governance are a crucial starting point: if they do not diverge substantially from the current institutional and normative status quo, then the potential for conflict and...
bargaining deadlock is diminished. Preferences apply to both policy outcomes—the content of global governance—and institutional design. Equally important are capabilities for influencing global governance, since these may not follow directly from increasing economic weight. Countries may possess latent capabilities but fail to engage or deploy those capabilities to full effect, for reasons of domestic or international calculation. The effectiveness of strategies used by the rising powers is a third determinant of their ability to influence global negotiations and existing global governance institutions. Finally, as Amrita Narlikar’s Introduction to this issue of *International Affairs* suggests, change in global governance results from bargaining between rising powers and incumbents (the United States, the European Union and Japan). The responses of those incumbents will be critical to global governance outcomes. In an analysis of this kind, many actors may seek changes in the existing order and its rules: an automatic equation of incumbent powers with the status quo and rising powers with challengers should be avoided.

Two definitional and theoretical caveats should precede this analysis linking preferences, capabilities and strategies to bargaining outcomes. First, following the introduction to this issue, global governance will not be limited to formal intergovernmental organizations (IGOs), even though those institutions often serve as the prime arena for negotiations between the emerging and incumbent powers. Global governance also includes an array of non-state actors and informal institutions in addition to the global peak organizations such as the International Monetary Fund (IMF) and the World Trade Organization (WTO). Second, continued economic convergence will be assumed. Recent slowing of economic growth in each of these countries, as well as their political tribulations, from the fall of Bo Xilai in China to India’s power blackouts, highlight the uncertainties of their political and economic performance. Nevertheless, policy changes that have produced economic advance in each of these three countries seem to support a prediction of continued economic convergence on the anaemic economies of the indebted incumbent powers.

To signal tentative conclusions in advance, the impact of the large emerging economies on global governance is unlikely to be revolutionary. They do not differ from other powers, past and present, in wishing to extract as many benefits as possible from their engagement with the international order while giving up as little decision-making autonomy as possible. They are less likely to be radical reformers than conservatives. Their domestic political and economic dilemmas induce an aversion to risk. Integration into the global economy remains cautious; they are circumspect in their willingness to assume global leadership roles. The BICs will seek shock absorbers and insurance policies, both domestic and international. Distributional conflict internally, given the large levels of social and economic inequality in these societies, also points towards a high assessment of risks from any costly, if responsible, stakeholder status. Large, conservative free-riders can pose risks for global governance, however, particularly for those

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2 Rosemary Foot and Andrew Walter underscore this similarity between the two economic powers in *China, the United States, and global order* (New York: Cambridge University Press, 2011).
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issues, such as righting macroeconomic imbalances or arresting global climate change, that require more rapid and less incremental shifts in international collaboration.

New economic powers and preferences for global governance: policies and institutions

For those who predict damaging challenges to the existing global order from rising powers, demonstrating that their preferred global order would diverge from the status quo is not always necessary. An extreme example is offered by the proponents of offensive realism, who argue that increasing capabilities will themselves transform preferences in a radically revisionist direction. For others, state-centred development models create preferences that represent a clear challenge to the market-oriented prescriptions of the so-called Washington Consensus. Many governments, including the United States administration, adopted policies of large-scale state intervention in the wake of the global financial crisis of 2008–2009. The BIC economies, however, are often portrayed as proponents of an alternative, state-centred development model, grounded in long-standing ideology and deeply entrenched interests, that is inimical to the existing rules of the game in global economic governance.

More alarming, on this view, for supporters of existing global governance institutions, is the prospect that emerging powers may attempt to export an alternative model of political and economic organization that deploys ‘purposive state intervention to guide market development and national corporate growth, rather than relying on self-regulated market growth’. Dani Rodrik argues that the most successful developing economies have not followed the usual menu of market-oriented policies; instead, they have adopted a package of broadly neo-mercantilist policies that have promoted export-oriented manufacturing sectors. Economic convergence does not therefore produce challenges to market orthodoxy and its representatives among global institutions; rather, those challenges have produced economic convergence. If the BIC economies share successful state-directed models of economic development, and if they seek to create a compatible global environment for those economic models, conflict with the incumbent powers and with existing global economic institutions is likely to ensue. The recent record of their preferences in respect of global economic governance, however, does not indicate that the large emerging economies are promoting such an ambitious and ideological agenda.

4 The largest privatization in 2011 was the sale by the United States government of shares in the insurance company AIG, which reduced the holdings of the Federal Reserve in the company from 92% to 77% (Gill Plimmer, ‘Number of state sell-offs cut in half’, Financial Times, 12 Aug. 2012).
Rising powers and preferences for global economic governance

The revealed preferences of the BICs in global economic negotiations reflect their quest for greater influence in the dominant global economic institutions. They have consistently pressed for and, during the latest economic crisis, won a pledge of greater quota shares in the Bretton Woods institutions and, in China’s case, greater representation in the top echelons of management. With those concessions by the incumbent powers, the emerging economies have been willing to commit greater resources to the international financial institutions. BIC governments remain sceptical, however, about any strengthening of the international regime of macroeconomic policy surveillance. In the wake of the great recession that began in 2008, the G20, which included the largest emerging economies, was awarded a central role in macroeconomic policy coordination, through the Framework for Strong, Sustainable and Balanced Growth, backed up by the Mutual Assessment Process (MAP). In practice, that process failed to produce concrete policy commitments that would move the G20 towards its collectively agreed goals. At the Seoul summit of the G20 in 2010, for example, China opposed a US proposal for using current account surpluses and deficits as indicators of the need to adjust. China was hardly alone in its opposition, however. Germany, another economy persistently in surplus, supported its position. Resistance to multilateral surveillance of macroeconomic and exchange rate policies on the part of the emerging economies was not the only reason for the disappointing results of the new G20 process.

The economic crisis also produced criticism of another feature of the international monetary system: the central role of the dollar. During the 2008–2009 financial crisis, China’s criticism of the dollar’s role appeared to aim at a strengthened multilateral system, not an overthrow of that system. The Chinese monetary agenda included many ideas that were familiar from earlier discussions of monetary reform, paralleling European criticisms from the Bretton Woods era. Chinese representatives did not raise these issues forcefully at G20 summits, however; nor did China or the other emerging economies appear to aim at a new global monetary architecture. A more significant option, promoted by China (though not by India or Brazil), was the internationalization of its currency with the aim of creating an alternative to the dollar. Its ambition produced a different dilemma, however. An elevated role for the renminbi would require change in China’s core economic policies: a more flexible exchange rate, a reformed finan-

7 Justin Lin was appointed Chief Economist and Senior Vice President at the World Bank in 2008; Min Zhu was appointed Deputy Managing Director at the IMF in 2011.
8 Widespread attention was given to a series of articles published in early 2009 over the name of Zhou Xiaochuan, president of the People’s Bank of China, which argued for a new valuation of the Special Drawing Right (SDR), based on an expanded basket of currencies; a new SDR allocation, a recommendation supported by developing countries; a revival of the idea of a substitution account, which had been considered in the 1970s; and, finally (and most controversially), an effort to make the SDR a more attractive reserve asset.

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cial system and capital account liberalization. Here Chinese ambition to change international monetary governance collides with deeply entrenched patterns of domestic governance. In this instance, global economic ambition seems likely to undermine the existing political and economic order rather than reflect it.

Capital controls, a necessary adjunct to a pegged exchange rate if domestic monetary policy autonomy is to be retained, have long been part of the economic policy menu in China and India. The escape of these countries from financial turmoil during the international economic crisis only enhanced the attractiveness of such controls for developing economies that have faced cycles of boom-and-bust capital flows. During the 1990s, the IMF and the United States had pressed for a strengthening of international rules to promote capital account liberalization, a campaign that failed after a succession of financial crises in emerging markets. Over the course of the next decade, controls on capital inflows, although not more comprehensive controls, became more widely accepted policy instruments. Pragmatic adoption of capital controls by the BICs as a useful tool in dealing with international financial turmoil played a significant role in shifting the international policy consensus and inducing a qualified blessing by IMF staff in late 2012.

The preferences of China, India and Brazil in international financial and monetary governance demonstrate a common feature: a pragmatic desire for maximum policy discretion to deal with the effects of globalization. Some of those choices—notably China’s pegged and undervalued exchange rate—attracted sharp international criticism, from the United States and others, as a violation of international rules. Nevertheless, the preference for maximum discretion in domains of politically sensitive economic policy was hardly restricted to the large emerging economies. More significantly, the emerging economies did not present a coherent alternative template for global economic governance, nor did their proposals for change depart radically from those advanced in the past. The trade regime presented a similar picture, in which they defended national practices and policies without challenging the core principles or norms of the regime. The deadlock in June 2008 at the Doha Round of trade negotiations did not result from fundamentally divergent views of the trade regime or its future; the outcome can be explained by the political clout of agriculture in most major trading powers (and the particular sensitivity of subsistence agriculture in China and India), combined with WTO institutions that failed to encourage negotiating consensus among a larger and more diverse group of key negotiating parties.

10 Barry Eichengreen outlines the obstacles to both an expanded role for the SDR and an international role for the renminbi in Exorbitant privilege: the rise and fall of the dollar and the future of the international monetary system (New York: Oxford University Press, 2011), ch. 6.
12 Foot and Walter, China, the United States, and global order, pp. 95–102, note the reluctance of the United States, prior to the 2008 crisis, to accept international surveillance of its macroeconomic policy choices.
The coordination of financial regulation has gained particular prominence in global economic governance since the financial crisis. The United States and the United Kingdom (and their national regulatory systems) were at the epicentre of the crisis. One might, therefore, have expected a serious challenge from the BICs to their near-hegemonic position in international regulatory regimes. Instead, as in other issue areas, inclusion of members of the G20 in key regulatory and standard-setting bodies reduced opposition and lent support to further evolution in regulatory cooperation. Participation in international regulatory bodies permitted the BICs some leverage over future regulatory developments in the financial capitals of the industrialized world where the global crisis originated.14 No fundamental challenge to the existing framework or its regulatory norms, embodied in Basel II and Basel III, emerged from China, India or Brazil, however. On the contrary, China continued its selective use of international regulatory standards as an instrument of domestic financial reform, a process that antedated the great recession.15

Overall, the revealed preferences of China, India and Brazil in global economic negotiations, both before and after the global financial crisis, were those of moderate reformers at best, intent on maintaining domestic policy space in the face of international norms and rules that had been too often developed without their participation. It was most often their participation in the process of rule creation and institutional evolution that was the key issue, not the content of the rules themselves.

Rising powers and international security regimes: opposition to hierarchy, defence of sovereignty

In salient issue areas of international security in the new century, it is, at first glance, more difficult to discover common ground among China, India and Brazil. Their military profiles and aspirations appear dissimilar. They share distance from the web of alliances and security relationships that centre on the United States, however; and they have often found themselves in opposition to US policies, during the Cold War and after. As the United States asserted a more expansive definition of its security interests after the terrorist attacks of 11 September 2001, the BIC governments often appeared as conservative defenders of existing international security regimes, confronting a Great Power intent on modifying those regimes unilaterally. The ambiguity of the label ‘status quo’ is most apparent in this domain.

Two key security regimes—non-proliferation of weapons of mass destruction (WMD) and peacekeeping in internal conflicts—illuminate both differences and common concerns among China, India and Brazil over the content of existing global governance institutions. Each was initially critical of the 1968 Nuclear

15 Foot and Walter, China, the United States, and global order, pp. 255–64.
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Non-Proliferation Treaty (NPT) that has been a core institution for preventing the spread of nuclear weapons. China and Brazil did not ratify the NPT until 1992 and 1998 respectively; India remains a non-signatory state. The division embedded in the treaty between recognized nuclear weapons states and states committed to remain non-nuclear was regarded as an affront to all developing countries. The BICs have moved a considerable distance from their earlier critical stance towards an endorsement of the goal of non-proliferation. They remain sensitive, however, to any intimation of hierarchy in the non-proliferation regime, particularly attempts by the United States or other powers to impose new obligations without multilateral assent.

Although China’s support for non-proliferation of WMD is now ‘substantial and enduring’, it has declined to recognize the US-backed Missile Technology Control Regime governing missile proliferation and continues to export missile-related goods and technologies.\(^{16}\) India’s agreement on civilian nuclear cooperation with the United States represented a tailoring of regime rules to suit the national interests of an NPT non-signatory; its commitments brought India into compliance with some non-proliferation norms, though it remains outside key export control agreements and has declined to join the Proliferation Security Initiative.\(^{17}\)

The participation in the non-proliferation regime of both China and India was driven in part by the logic of nuclear incumbency, ensuring their own security by preventing the spread of WMD to non-state actors in particular. For Brazil, which had abandoned its nuclear weapons programmes, the NPT remained ‘an intrinsically unfair Treaty’.\(^{18}\) For economic and foreign policy reasons, Brazil was intent on defending its rights (and those of other developing countries) under the NPT to enrich uranium for peaceful purposes and to develop nuclear-powered submarines; it also refused to sign the 1997 Model Additional Protocol to the NPT. All three rising powers viewed ‘mastery of nuclear technology as an important attribute of a great power’.\(^{19}\) Although they endorsed the aim of non-proliferation with varying degrees of enthusiasm—a sharp change from their stance during the Cold War—the BICs also carefully reserved as wide a sphere as possible for national action within the formal multilateral constraints of the NPT regime.

Repeated interventions in internal conflicts during the post-Cold War decades, most with authorization from the UN Security Council (UNSC), highlighted the conservative stance of the rising BIC powers towards the content of existing global governance. China, India and Brazil have each contributed substantially to international peacekeeping activities. China has contributed more peacekeeping activities.


\(^{18}\) Brazil’s Foreign Minister applied this label in 2010; he argued in the same speech for the complete elimination of nuclear weapons and their lack of utility for national security.

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personnel than any other permanent member of the UNSC over the past decade.\textsuperscript{20} India has long been ‘an essential participant’ in UN peacekeeping operations, contributing 11–13 per cent of all peacekeepers.\textsuperscript{21} Brazil intervened in regional political crises in Venezuela, Bolivia and Ecuador, sent troops or observers to Lusophone African countries, and assumed leadership of the UN mission in Haiti.\textsuperscript{22}

Despite this activism, the rising powers have insisted on multilateral, UN support for such actions. They have consistently defended a traditional conception of sovereignty and professed scepticism regarding armed intervention against incumbent governments. As members of the UNSC, none supported UNSC Resolution 1973 approving a no-fly zone over Libya in 2011. In UN discussions over the Responsibility to Protect (R2P) provisions that defined obligations to defend civilian populations, China was a ‘conservative force’, but did not hinder discussion of the issue; India also offered only tepid support for the new principle.\textsuperscript{23} Once again, domestic politics (concern over their own internal vulnerabilities) and foreign policy (alignment with developing country coalitions) drove the global governance preferences of the BICs towards a strict interpretation of the reserved sphere of national decision-making authority.

The common thread that connects preferences in global economic governance with these international security regimes is an insistence on equality with incumbent powers in interpreting global governance regimes and a rejection of any constraint on national decision-making autonomy that has not been explicitly negotiated and agreed. As they enter the upper echelons of the international hierarchies, whether as traders, investors or nuclear-capable powers, their embrace of equality with other non-incumbents also becomes more ambiguous, exemplified by China’s resistance to permanent UNSC membership for India and Brazil.

Preferences on global governance: institutional design

Despite these qualifications, the overarching trend in the preferences of China, India and Brazil on existing global governance regimes has been one of convergence on the status quo. Using the Cold War era as a benchmark, the BICs have moved in nearly every issue area towards greater acceptance of the content of major international governance structures. Their preferences on the form of global governance have become equally unexceptional. Although Asian governments have often been cast as hostile to legalized international institutions, China and India have participated actively in the dispute settlement mechanism (DSM) of the WTO. Developing countries are often viewed as disadvantaged by legal-

\textsuperscript{20} Chin and Thakur, ‘Will China change the rules of global order?’, p. 128.
\textsuperscript{23} Foot and Walter, \textit{China, the United States, and global order}, p. 50; Narlikar, ‘Is India a responsible great power?’, p. 1614.

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ization and the costliness of participation in such institutions, but the BICs have developed experience in the WTO DSM (often as targets of trade complaints) that has led to active engagement, particularly as third parties in panel proceedings.24

Global governance is no longer limited to formal intergovernmental institutions, however. Networked governance, whether by transgovernmental networks or hybrid networks that include non-state actors, has become increasingly prominent in recent decades.25 Non-governmental organizations (NGOs) are both actors and negotiating resources for national governments. Given the dominance in many issue areas of NGOs based in the G7 countries, BIC governments have often regarded these non-state actors as coalition partners of the industrialized countries. Their wariness has been amplified by contentious domestic relations with their own NGOs or, in the case of China, rejection of autonomous civil society organizations. The rising powers once again display conservative preferences, usually opting for a model of global governance in which national governments serve as essential gatekeepers to global institutions, and IGOs remain the preferred venue for negotiation and implementation of international agreements.

National capabilities and strategies of influence in global governance

The three largest rising powers display preferences on the content and form of global governance that have, in most issue areas, converged with those of the incumbent powers. As their engagement with the global economy and international institutions grew, they became more outspoken reformers, displaying ‘a more assertive policy pursued through engagement and negotiation: pressing for reform but operating very much within the system’.26 Preferences could diverge in the future, however, given domestic political change or renewed international economic turmoil. As sceptics have predicted, increasing capabilities might themselves produce a change in national preferences on the content and form of global governance.

Whatever the direction of underlying preferences, however, sheer economic weight and increasing military prowess do not directly translate into capabilities that provide bargaining power in global negotiations or influence over the institutions of global governance. In economic issue areas, market size contributes to capabilities and often provides a major bargaining advantage. More specifically, in the trade regime ‘the capacity to open or close a market’ is a reasonable estimate of bargaining power.27 Rapidly growing internal markets and export-oriented economies are the primary foundations for the growing capabilities of China,

26 A description of Brazil’s stance towards the existing order by Andrew Hurrell, ‘Brazil: what kind of rising state in what kind of institutional order?’, in Alexandroff and Cooper, eds, Rising states, rising institutions, pp. 128–50 at p. 136.
India and Brazil in global economic governance. In similar fashion, the scale of domestic financial centres and an ability to deny access to those markets have increased the leverage of the United States and the United Kingdom in bargaining over international regulatory standards.\(^28\) As the BICs begin to host substantial, internationally connected financial markets, they will also gain greater voice in the development of future regulatory standards. Market size and access provide only a baseline for capabilities within global economic institutions, however: an ability to commit credibly to market access and compliance with agreed market opening measures is equally important.

Measurement of capabilities in other domains of global economic governance is more difficult. Monetary capabilities centre on the ability to delay or deflect adjustment costs (and their accompanying political costs), which in turn is based on reserves, the ability to borrow, and the openness and adaptability of the national economy.\(^29\) A currency that is widely used internationally provides additional influence and also imposes certain constraints: a requirement for a credible and conservative monetary policy as well as highly developed and liquid financial markets.\(^30\) In bargaining with the incumbent powers, China and other emerging economies have possessed one key asset: their large levels of reserves, accumulated as insurance against international financial shocks and as an effect of undervalued exchange rates. China’s reserves in particular have exploded in size over the past decade. Although growing monetary power awarded it greater influence at the IMF, China’s efforts to use its reserves as bargaining assets in bilateral negotiations with the United States have been largely ineffective.\(^31\)

In global governance of issue areas that concern international or internal security, technological and military indicators provide initial estimates of national bargaining power. In the non-proliferation regime, mastery of nuclear technology and status as at least a near-nuclear power grant leverage to force adjustment in the regime, as India’s bargaining with the United States demonstrated. Since many issues related to international security are referred to the UNSC, permanent membership of this body (currently enjoyed by China, but not India or Brazil) represents potential influence through veto power. The ability to participate in the internationally authorized use of force or in peacekeeping missions, based on at least minimal ability to project military power, is a further capability possessed by each of these rising powers.

Any survey of capabilities confirms the divergent profiles of the rising powers. China alone possesses increasing capabilities across international economic and security issue areas. On indices of military capability, Brazil stands apart: many of its South American neighbours have larger defence budgets relative to their


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Rising powers and global governance economies; its military assets are smaller than those of either China or India. If variation in capabilities is one determinant of the influence of these rising powers in global negotiations, however, their willingness to mobilize these capabilities is equally important. Negotiating styles have compensated for deficits in capabilities. India and Brazil, for example, share an activism and engagement, particularly in trade negotiations, that cannot be explained by sheer commercial power. Brazil’s coalition-building, its ‘intensive “insider activism” and its capacity to work the informal norms of the WTO’ explain its prominent position in that organization. India, a founding member of the GATT, was overshadowed as a commercial power when more dynamic exporters emerged in Asia. Despite this decline in its measured capabilities within the trade regime, it has remained a leader of the developing country opposition during successive rounds of trade negotiations, including the current Doha Round. As for China, although it has been a leading member of Doha Round coalitions, it evinced little activism at the WTO during its first years as a member. Its most active engagement with the WTO’s DSM has occurred as a respondent and as an interested third party in cases involving other WTO members.

Domestic political constraints often inhibit the ability and willingness of the BICs to mobilize their capabilities in global negotiations and global governance institutions. New political actors, activated by integration with the international economy, often make it difficult to forge a coherent negotiating strategy. New foreign policy actors in China—from internationally active businesses to netizens—have produced a more fragmented policy process, calling into question the priority awarded to internationalization and pressing for a more forceful posture in pursuit of Chinese national interests. Brazilian foreign policy-making, once dominated by the Ministry of External Relations (Itamaraty), now ‘appears overstretched by its international commitments and at times conflicted, if not bewildered, regarding which international objectives it is supposed to pursue’. State governments in India have begun to take positions on international economic policy, particularly India’s relationship with the WTO, a sign that national deliberations on multilateral issues are no longer restricted to a national policy elite. Domestic political calculations of cost also impose limits on engagement with such institutions. The relative poverty of these large, rapidly growing economies limits their willingness to exercise leadership in global institutions. Poverty is just

33 Hurrell, ‘Brazil: what kind of rising state in what kind of institutional order?’.
37 De Almeida and Diaz, ‘Brazil’s candidacy for major power status’, p. 227.
38 Rob Jenkins, ‘How federalism influences India’s domestic politics of WTO engagement (and is itself affected in the process), Asian Survey 43: 4, July/August 2003, pp. 498–621.
one element in the domestic fragility and insecurity that beset China, India and Brazil, however. China and India confront ethnic rebellions on their peripheries. The corrosive political effects of corruption pervade both authoritarian China and the two democracies. Environmental degradation has emerged as a prominent political issue in all three societies. This long domestic agenda and likely distributional conflicts in societies with high levels of economic and social inequality will affect bargaining stances across issue areas, generating a reluctance to bear substantial costs as part of international bargains, high sensitivity to the distributional implications of those bargains, and an unwillingness to give up the special status of developing country. Sharp distributional conflict within societies may produce distributive negotiating strategies, as national representatives become boxed in by the domestic costs of concession.

Domestic politics also creates political incentives for framing negotiations in ways that reduce flexibility. One politically driven perception is common to all rapidly developing economies: despite their aspirations for international status, rising powers typically underestimate their effects on the global economy and other countries. The scale of their policy externalities, whether greenhouse gas emissions or barriers to trade and investment, is far larger than can be easily conceded in domestic political discourse. This combination—persistent domestic demands on resources and self-perceptions of economic impact that lag behind reality—almost inevitably translates into a strong incentive to limit negotiating concessions, to curb costly global commitments, and to attempt to free-ride on the commitments of others.

Strategies and counter-strategies: rising and incumbent powers

National capabilities in global governance negotiations can be amplified by building coalitions of two types: South–South groups, in which the large emerging economies exercise leadership; and regional options that increase the rising powers’ leverage at global level. Two competing South–South alternatives have emerged in global negotiations. The first, coalitions with other large emerging economies, offers an option more manageable in size, at the cost of reintroducing the hierarchy that the rising powers attack in other settings. Among such coalitions (although the scope of their activities hardly qualifies them for that label) are the IBSA Dialogue Forum linking the three democracies of India, Brazil and South Africa and the BRICS summit (Brazil, Russia, India, China and South Africa), which first met in 2009. Each of these groups has assumed the familiar dialogue format of many other similar groups: anodyne summit declarations, ministerial meetings between summits, and occasional concrete proposals, the latest an initiative for a BRICS development bank. After four summits, there is little evidence that the BRICS governments have forged any common collective action in global forums; given their divergent national interests in many key negotiations, the group is unlikely to craft an effective programme of action. Like the BRICS group, IBSA has no headquarters or permanent secretariat; founded in 2003, it has held five summits.
Its principal programmatic initiative to date has been the creation of a small IBSA Fund for development finance.

Efforts to forge larger South–South coalitions have centred on the WTO’s Doha Round and on climate change negotiations. India and Brazil actively promoted the G20 coalition during the Doha Round; India was also a leader of the G33 on the key agricultural agenda. Although China collaborated with Brazil and India in the final, deadlocked negotiations in 2008, China more typically chose to portray itself as a link between the developing and developed worlds. It has been less wedded to a coalitional strategy, in part because of its independent national power within the trade regime, in part because its diversified trade interests and significance as an exporter of manufactured goods resemble the commercial profile of an incumbent power. For the BICs, and particularly India and Brazil, coalitional strategies produced seats at the top table in global trade negotiations. The forging of coherent developing country coalitions also offered potential benefits to the negotiating process through more effective representation of a larger number of actors. For individual BICs and the global trade negotiations, however, the balance sheet was decidedly mixed. As Amrita Narlikar points out, despite the potential benefits of large, coherent coalitions, the threat of defection by coalition members produced negotiating rigidity and, ultimately, deadlock at the Doha negotiations. India was able to block unwanted agreements in the Doha Round, but agreements that matched its expanding commercial interests remained beyond its grasp. For Brazil, a major agricultural exporter, the collapse of the Doha Round in 2008 also raised questions about its interest in leading a developing country negotiating coalition. For both India and Brazil, coalition leadership enhanced their capabilities at the WTO, but impeded their strategic flexibility.

Coalitions based in regional agreements and institutions appear to offer more promising alternatives for China, India and Brazil. Like South–South coalitions, regional partnerships may add heft to national capabilities. Regional alternatives also provide a second bargaining benefit: an outside option in global negotiations. The two dominant economic powers, the United States and the European Union, have used that outside option—the threat of a regional exit from global economic regimes—explicitly and implicitly to win global bargaining advantage. The BICs have been disadvantaged in bargaining with the incumbent powers by the absence of their own credible regional options.

Over the past decade, however, China, India and Brazil have expanded their regional strategies. Since 2000, Asia has witnessed a striking proliferation of

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41 Narlikar, ‘Is India a responsible great power?’, pp. 1610–11.
42 De Almeida and Diaz, ‘Brazil’s candidacy for major power status’, p. 242.
43 Outside the trade round, the demands of coalitional politics with the BASIC/G77 countries during climate change negotiations hindered Brazil’s move towards acceptance of internationally verifiable commitments to limit greenhouse gases. See Kathryn Hochstetler and Eduardo Viola, ‘Brazil and the multiscalar politics of climate change’, paper prepared for presentation at the 2011 Colorado Conference on Earth Systems Governance, Colorado State University, Fort Collins, CO, 17–20 May 2011, p. 6.
regional initiatives: preferential trade agreements (PTAs); ASEAN Plus Three, which promoted financial cooperation between North-East and South-East Asia for the first time; and the East Asian Summit, which brought India into a pan-Asian institution. China was a driver in many of these initiatives, embracing its regional vocation with the same energy that characterized its earlier approach to global multilateral bodies. India’s regional efforts in South Asia were less successful, although it actively pursued PTAs with economies both within and outside Asia. For both China and India, however, Asia was unlikely in the short term to add significantly to their global bargaining power. Regional heterogeneity in Asia—in income levels, political regimes and other dimensions—points to divergent preferences over regional institutionalization. Rivalry between the rising powers, China and India, as well as China’s competition for regional leadership with Japan, make a deepening of regional collaboration unlikely. The negotiation of the Chiang Mai Initiative Multilateralization (CMIM) is a rare example of Chinese partnership with Japan in developing regional cooperation. The recent slowdown in China’s economic growth highlights a final impediment to building an Asian regional base that could provide a credible regional alternative in global bargaining: economic dependence on extra-regional economies (largely the US and the EU). Asian regionalism has also produced relatively weak institutions with little delegated authority, offering only uncertain support for the global ambitions of China and India.

Brazil has also pursued a regional leadership role as an avenue for strengthening its global ambitions, beginning with the negotiation of a customs union, Mercosul (the Southern Common Market), and accelerating during the presidency of Lula da Silva when Brazil played a leading role in creating the South American Community of Nations (Unasur) in 2004. Brazil has confronted the same dilemma as China and India, however: the costs of a leadership bid that has won at best uncertain support from the rest of the region. Brazil’s activism in South America did not produce either immediate acknowledgement of its regional leadership at the global level or acquiescence by its neighbours in its new role. Regional bargains did not translate easily into common positions in global negotiations. At the same time, regional diplomacy placed new burdens on an already overtaxed diplomatic establishment.

Neither South–South nor regional coalitions have reliably supported the global bargaining power or the global governance ambitions of the BICs. India and Brazil, the most energetic proponents of South–South coalitions, achieved larger roles in the WTO and other forums as a result of their coalitional leadership; but leadership also imposed costs by tying their bargaining strategies to a large and heterogeneous group of developing countries. Regional alternatives were not successful enough to serve as credible outside options, and they taxed


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The diplomatic resources of the BICs. The aspiring global powers discovered that regional neighbours were often their rivals rather than loyal supporters of their negotiating agendas.

Incumbent counter-strategies: delay and co-optation

As China, India and Brazil sought to expand their influence and satisfy their policy preferences in global institutions, the incumbent powers—the US, the EU and Japan—were not passive observers. They pursued their own strategies in response, seeking, on the one hand, to gain legitimacy by accommodating demands by the rising powers for a greater formal role in key institutions while, on the other, retaining as much decision-making authority and institutional efficiency as possible.

Over the past decade, in nearly all of the key global governance institutions, the largest emerging economies were granted larger decision-making roles, either through an increase in quotas (as in the IMF and World Bank) or through incorporation into clubs that had been restricted to industrialized countries (such as the principal entities overseeing financial regulation). In some cases, such as India’s membership of the OECD, club requirements were ultimately assessed as too costly and were declined—but the option was discussed. The G20, a previously marginal group that included the large emerging economies, was promoted to a central role in global economic management. At the same time, key beachheads of incumbent power, such as the top positions at the IMF and World Bank, were not readily conceded. Following the scandal-induced resignation of IMF managing director Dominique Strauss-Kahn, the BRICS issued a statement labeling Europe’s long-standing claim to the position an ‘obsolete, unwritten convention’. Nevertheless, at the IMF and then again at the World Bank, Europe and the United States succeeded in retaining institutional leadership by a skilful acceptance of competition and the nomination of individuals who did not fit the traditional mould: a woman at the IMF (Christine Lagarde) and, at the World Bank, a global health expert who was born in Asia (Jim Yong Kim).

After co-opting the large emerging economies, the incumbent powers did not, for the most part, encounter radical demands for change or monolithic blocs led by the new members. In the G20, for example, the Asia–Pacific members were the largest group, but they did not coordinate successfully to promote a regional agenda. Thus the incumbent powers gained legitimacy not only for existing global institutions and policies but also for the principle of hierarchy itself: in expanding their influence within these institutions, the emerging economic powers accepted that some countries were more equal than others, a position that they had long criticized.

The incumbent powers also worked to weaken outside options that would enhance the future bargaining power of the rising powers. The move to co-opt these powers into existing clubs placed their relations with other members of South–South coalitions at risk. Regional arrangements that appeared threatening

to incumbent powers were undermined through competitive regional initiatives: Japan attempted to match China’s campaign for PTAs in the Asia–Pacific region; the United States countered the threat of a China-led Asian trading bloc with the Transpacific Partnership. The net result of the incumbents’ strategies was a modest increment of influence for the rising powers in existing global institutions and negotiating forums— institutions made more legitimate by the participation of those powers. At the same time, outside options that might enhance the future institutional leverage of Brazil, China and India were rendered less credible by the incumbents’ counter-strategies.

Conclusion: negotiating with rising powers and the future of global governance

The world’s three largest emerging economies—China, India and Brazil—give little sign that they wish to mount radical challenges to the status quo in global governance. Their economic success is based on cautious integration with the international economy, and they have become major stakeholders in the existing international economic order, unlikely to support revolutionary change. Their record before and during the global economic crisis of 2008–2009 was one of support for reformed global governance institutions, defined as institutions that award them greater influence, commensurate with their expanded economic, political and military capabilities. Proposals for change in global governance, to the degree that they were advanced by the BIC powers, were well within the scope of existing reforms, past and present. BIC governments have demonstrated little desire to export national models of development, but they have resembled other large countries, including the incumbent powers, in attempting to defend national policy autonomy while extracting maximum benefit from global economic integration.

This generally benign scenario of accommodation and reform does not mean that the rising powers will be pliable negotiating partners. Nor does it eliminate the risk of conflict between rising powers and incumbents with the potential to disrupt global governance. Conflict is most likely to occur along three fault-lines: system friction, distributional conflict and institutional efficiency. Emergence of conflict on the first fault-line depends on the stance of the incumbent powers, which are likely to demand market-oriented changes of the rising economic powers. If continuing economic advance by the large emerging economies is dependent on their failure to converge on market-oriented models of political economy, governments of the rising powers and domestic interests that are entrenched in their existing models of development will resist these demands for harmonization with global standards. Although the emerging economies will converge selectively on many of the institutional practices and standards of the incumbent powers, they will continue to display institutional differences that affect their economic partners and competitors. Conflict over treatment of foreign investors, government subsidies, labour and environmental standards, and many other behind-the-border policies...
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and practices will continue. Negotiations between the incumbent powers and the emerging economies over these issues will raise questions that have been on the global governance agenda throughout the era of globalization: should international economic governance aim for deeper integration at the cost of domestic political and economic difference? Or should the harmonization agenda that was a prominent part of the Washington Consensus be exchanged for a more modest vision, one in which system differences are managed, not erased, and negotiations aim at reducing conflict rather than harmonizing divergent practices?

The second line of conflict within global governance is less amenable to management and resolution. Distributional conflict with the current rising powers is more likely to increase because of their internal domestic cleavages: high levels of poverty and inequality coupled with lagging perceptions of their economic impact on the global system. Even severe critics of China and the other BIC economies do not claim that the threats they pose to global governance ‘derive from any cohesive, let alone comprehensive strategy concocted by the political or even intellectual leadership of the country’.47 Rather, the principal threat comes from a perception on the part of the incumbent powers that the rising powers are free-riding. The large emerging economies may excuse their uncertain compliance with global rules and reject new and binding obligations by pointing to weak state capacity and their continuing status as developing countries. As the economic weight and negotiating power of the emerging economies grow, the incumbent powers are likely to resist such negotiating strategies.

Negotiating issues with large distributional consequences will be rendered even more intractable by the competing perspectives on either side: what is identified as free-riding by the incumbent powers is defined by the emerging powers as economic justice for countries still contending with large poor populations. These disparate negotiating perspectives obscure a more fundamental issue of global justice: how much should a poor country—no matter how large—contribute to sustaining global governance? Even if the BICs’ economic success merits removal of their developing country status, what other concessions should be made in the light of their internal social and economic demands?

Finally, the incorporation of these rising powers into global governance sharpens the existing trade-off between institutional legitimacy based on inclusion and legitimacy based on efficiency in reaching cooperative international bargains and implementing those bargains. Narlikar has described this trade-off in WTO negotiations, where the inclusion of new trading powers in prominent roles during the Doha Round produced deadlock.48 Here the negotiating strategies pursued by the rising powers will be key. Simply building large coalitions to press their interests and those of other developing countries will not be adequate if the result is persistent deadlock across many issue areas. The need for institutional innovation to deal with large numbers in a multilateral negotiating setting


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has been present since the explosion of independent states and their entry into international institutions in the 1960s and 1970s. Nearly all such institutional solutions involve some measure of delegation or representation, however: all sovereign parties cannot be equally involved in forging global agreements at all times. For many developing countries, and particularly for the largest emerging powers, such delegation, and the hierarchy that it implies, are difficult to accept. The risk, if institutional innovations are not successful, is institutional exit on the part of one or more incumbent powers. The formation of clubs with restricted membership or the creation of coalitions of the willing may serve as an option for advancing international cooperation. Such alternatives to existing global negotiating forums and governance institutions also risk fragmentation of global governance and disfranchisement of less influential participants.

Global governance in an era of rising powers and distracted incumbents

The most recent global economic crisis, the worst since the Great Depression of the 1930s, did not result in a wholesale breakdown of international cooperation or the dismantling of regimes of global governance. In recent negotiations, the rising Powers have demonstrated themselves to be conservatives, driven by domestic stakeholders and their conceptions of national economic interest to defend the existing order. The support of the rising economic powers—in contrast to their counterparts during the earlier economic crisis—was crucial in sustaining international cooperation. There are two histories of the 1930s, however: on the one hand, militant challengers to the status quo that disrupted peaceful change; on the other, a deficit of individual and collective leadership. Looking forward, a power transition model that emphasizes disruptive challenges to global governance seems implausible. Disorder and conflict resulting from a failure of leadership are less improbable. On this model, incumbents, distracted by slow growth and growing indebtedness, would confront rising powers, intent on extracting national advantage while benefiting from the existing rules of the game. Cooperation, particularly if it entailed greater international oversight of national policies, would fail to advance. Critical new issue areas, such as surveillance of global economic imbalances or climate change, would witness fragile bargains at best or unilateral action at worst.

Several institutional innovations could contribute to successful negotiations with the rising powers and advances in global governance that win their consent. First, if incumbents concede greater influence over global governance to the rising powers, the ascendant powers must commit to transparency. Increased transparency has been a major achievement in recent reforms of global governance; it should not be traded away, whatever the discomfort of these governments.

50 For the latter, see Charles Kindleberger, The world in depression, 1929–1939 (Berkeley: University of California Press, 1986).
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Transparency is not a panacea for failed negotiations and persistent conflict, but few would refuse to acknowledge the contribution of informational distortions and asymmetries to cooperation failures. Second, given the domestic political and economic uncertainties that confront the large emerging economies, negotiations over reformed institutions should aim at built-in flexibility, in the form of escape clauses and safeguards (subject to international oversight). Third, given the political sensitivities surrounding sovereignty in these countries and a willingness to turn to nationalist vocabulary in framing debates over global engagement, informal institutional forms may prove more effective, by avoiding any appearance of international imposition. Surveillance mechanisms, which are likely to be introduced in many issue areas, from macroeconomic coordination to climate change, are particularly sensitive; the careful design of those mechanisms will be essential for strengthened global governance. Finally, the informal networks that span governments and NGOs in the industrialized world, a critical new underpinning to international collaboration, must link to the emerging economies as well.

Innovations of these kinds, even if they can be implemented, provide only modest insurance against a weakening of the patchwork of global governance and its institutions in the face of a changing global environment. Spillovers from military and political rivalries—between the United States and China, or between China and India—could undermine collaborative bargains in other issue areas. Another large economic shock, comparable to the great recession of 2008–2009, could make regional options more attractive as institutional insulation against global economic disorder. Successfully negotiating the rise of China, India, Brazil and other rapidly developing economies will not be easy. The incumbent powers and their citizens should bear in mind, however, the significant positive global externalities produced by successful development in the largest emerging economies. A return to the poor and poorly governed China of the recent past, to the India of persistent poverty and low growth rates, to the Brazil of hyperinflation and recurrent financial crises would be the worst outcome for the international order. Reformed global governance should aim to sustain future economic and political progress in these large emerging economies. Governments of incumbent powers must convince their publics that such progress continues to produce substantial benefits and to merit reform of global governance. Despite their daunting domestic agendas, the rising powers, in turn, must couple growing influence in the institutions of global governance with an increase in their own levels of international engagement.
The Global Economic Crisis and the Future of Neoliberal Globalization: Rupture Versus Continuity

Ziya Öniş and Ali Burak Güven

This article outlines the main elements of rupture and continuity in the global political economy since the global economic crisis of 2008-2009. While the current calamity poses a more systemic challenge to neoliberal globalization than genetically similar turbulences in the semi-periphery during the 1990s, we find that evidence for its transformative significance remains mixed. Efforts to reform the distressed capitali models in the North encounter severe resistance, and the broadened multilateralism of the Group of 20 is yet to provide effective global economic governance. Overall, neoliberal globalization looks set to survive, but in a more heterodox and multipolar fashion. Without tighter coordination between old and emerging powers, this new synthesis is unlikely to inspire lasting solutions to pressing global problems such as an unsustainable international financial architecture and the pending environmental catastrophe and may even fail to preserve some modest democratic and developmental gains of the recent past. Keywords: global economic crisis, neoliberal globalization, G-20, models of capitalism, emerging markets.

Economic and political tectonic plates are shifting. We can shift with them, or we can continue to see a new world through the prism of the old. We must recognize new realities. And act on them.

—Robert Zoellick, president, World Bank Group

The nihilistic voices raised against the disgraced masters of the universe will eventually cease. It is possible to imagine that one day investment bankers may again be welcome at dinner parties. It might take a little rebranding, though.

—Sir Martin Sorrell, CEO, WPP Group

The global economic crisis of 2008–2009 has inspired contending visions about the future of world order. Among pundits as well as policymakers, prognoses continue to range widely from radical systemic reorganization on one end to the eventual reinstatement of the status quo ante on the other. By contrast, scholars have long pointed to a narrower scope of likely outcomes. Proponents of “a new global economics and a new global politics” were careful not to dismiss the dragging force of the “conservative technocratic elitist” policy response that took hold early on. Those who suspected the “neoliberal
norms [would] prevail once the cognitive fog lifts” also noted the powerful pressures for “intellectual, organisational and normative change.” Three years into the crisis, it is this measured stance that emerges above others. It is becoming abundantly clear that we are set neither for a radical reconstruction of the world as we knew it, nor its senseless endurance. Some defining characteristics of the old order appear to be fading while others remain in force. Ours is a juncture of bounded transformation.

In this article, we highlight the major elements of rupture and continuity in the global political economy since the onset of the crisis. Our starting point is that the crisis poses a fundamental challenge to the project of neoliberal globalization—the worldwide process of reorganizing economic activity on the principle of intensified interaction and interdependence between increasingly open and liberalized national markets, which has received ample endorsement from business and policy elites in both the Global North and most countries of the Global South for the past three decades. It is noteworthy that the present crisis is not the first material challenge to this project. Neoliberal globalism was already put to a tough test during the string of financial meltdowns that engulfed the semi-periphery in the 1990s. These episodes accelerated the paradigm reorientation toward a more social and regulatory system among some supporters of this project and were met with corresponding efforts to redesign emerging market economies, but their lessons were by and large ignored in the Global North and had little impact on the workings of the international economy.

The contemporary crisis is different from that earlier volley of warning shots in its systemwide character and consequences. It represents the biggest disruption to the postwar international economic order, and brings into relief a large constellation of factors that shape current efforts to put things back together both within national economies and for the system itself. As numerous as they may be, we believe most of these factors connect to two interrelated themes: the problems within and relationships between rival models of capitalism, and the evolving structure of and challenges to global governance. From the perspective of these two themes, many of the ruptures frequently associated with the crisis appear as accelerations and aggravations of existing trends rather than brand new phenomena, such as the rise of Brazil, Russia, India, and China (the BRIC countries); chronic problems besetting both the Anglo-American free market and the European social market models; and the quest for stronger and more representative global governance mechanisms. Likewise, continuities prove more dynamic than static as in the new variations of conflicts of interest between leading and emerging powers complicating global policy coordination, the evolving channels of elite and popular resistance to policy change in various regions, and the lack of alternatives to existing multilateral financing bodies amid changes in lending framework and priorities.
The general point is that the crisis is accelerating the drive toward a multipolar globalization riding on a more heterodox liberalism. Even then, the neoliberal globalist project will survive in the medium term, but probably in modified form and in a less propitious environment that will accentuate its contradictions. The fundamental challenge here is the difficulty of attaining effective global policy coordination on key matters, particularly in the absence of sufficiently powerful multilateral institutions with a meaningful degree of autonomy from nation-states. Our conclusion is therefore somewhat bleak. Without deep coordination on a broad range of interconnected issues, there is little hope not only for resolving the pressing global problems of the day, such as a self-destructive international financial architecture and the unfolding environmental catastrophe, but even for defending some modest democratic and developmental gains of the past two decades.

From the Periphery to the Core: Crises of Neoliberal Globalization

Especially in media reports, but also in scholarly debates, there is a popular tendency to treat the contemporary crisis as the first major challenge to neoliberal globalization. This provides a hardly convincing storyline because it fails to acknowledge the long list of financial tragedies in the semi-periphery between the mid-1990s and early 2000s. These crises bore a striking genetic resemblance to the current emergency as they too originated from a faulty belief in the self-regulating properties of integrated markets, caused much human suffering, and in turn had important normative and international policy repercussions, some broadly similar to those that are in ascendance today. There are of course significant differences between these prior turbulences and the present one, particularly in terms of the specific mix of the national and the global in their causes as well as consequences. Still, revisiting that past experience, the crucial lessons of which were obviously unheeded by policymakers in advanced economies, allows for a more accurate historical outlook.

The crises of neoliberal globalization in the semi-periphery started with the Turkish and Mexican financial shocks in 1994, continued with the devastating Asian financial crisis of 1997, reached full steam during the Russian and Brazilian meltdowns of 1998 and 1999 respectively, and came to an end with the collapse of Turkish and Argentine economies in 2001. When these episodes are treated as a specific marker in the evolution of neoliberal globalization, the preceding one and one-half decades also emerge as a unique phase in itself. The period from the early 1980s to the mid-1990s witnessed the emergence, diffusion, and consolidation of the neoliberal globalist project. Never in history had so many countries from such varied starting points simultaneously attempted to reorganize their economies along similar principles. The "mixed economies" of the third world, the coordinated and interventionist sys-
tems of Western Europe, and the postsocialist countries of the former Soviet bloc were all encouraged to follow the Anglo-American example in embracing free-market internationalism as the surest path to national prosperity and, coincidentally, global peace. But while liberalization and market integration did seem to help the recovery from the stagnation of the 1970s and the early 1980s for most countries in the North, the euphoria waned rapidly in the Global South. A key problem was the lackluster record of market reforms in much of the developing world, particularly in Latin America and sub-Saharan Africa where restructuring inspired by the International Monetary Fund (IMF) and the World Bank often resulted in deteriorating growth rates. The financial crises in the semi-periphery in the 1990s intensified the already growing skepticism about orthodox policies of domestic liberalization and international integration by exposing some of their less predictable perils.

The basic mechanism behind these crises was similar to the present one. Invariably, they followed from an unruly integration with global financial markets made possible by radical domestic financial liberalization and hasty capital account liberalization. In the absence of strong precautionary mechanisms, exposure to highly volatile and speculative capital flows resulted in the accumulation of deep macroeconomic imbalances in each instance, eventually triggering devastating financial crises followed by economy-wide recessions. Another similarity was in the social outcome of the crisis. As in the present context, the benefits of neoliberal globalization had accrued disproportionately in many of these economies, often leading to deteriorations in income equality that placed popular classes under significant stress. In the end, these crises forced policymakers in the semi-periphery to tackle much the same challenges their counterparts in the Global North are facing today: reining in an under-regulated financial sector through institutional improvements in financial governance while taking protective measures to minimize the social fallout of the crisis.

The financial turmoil of this period was a key factor in the normative shift away from orthodox neoliberalism in the mainstream development community. Starting from the mid-1990s, but especially after the Asian financial crisis, international financial institutions (IFIs) such as the IMF and the World Bank began advocating a more social, regulatory, and pragmatic neoliberalism, often labeled the post–Washington Consensus (PWC). Rather than extolling the virtues of self-regulating markets, they now emphasized the need for cultivating good governance, building strong regulatory arrangements, and adopting pro-poor growth strategies through sweeping domestic institutional reforms. This agenda has been implemented unevenly across the developing world, partly as a result of declining IFI presence especially in middle-income countries (MICs) in the 2000s. However, its message for caution was taken seriously on the regulatory front as numerous emerging market countries moved to reduce their vulnerability to the vagaries of global financial markets by
tightening their banking regimes and quite often by accumulating large international reserves.

The growing awareness in the semi-periphery about the perils of neoliberal globalization was not shared as strongly in advanced economies. Surely there did emerge multilateral initiatives to guard against future financial trouble in the system, such as the establishment in 1999 of the Financial Stability Forum, a platform that brought together Group of 7 (G7) countries and key international financial and regulatory organizations for promoting basic universal “financial codes and standards” in various areas including banking and insurance supervision, fiscal transparency, auditing, data dissemination, and corporate governance. One problem with this effort was the slow and piecemeal adoption of these standards in the developing world,9 including instances of “mock compliance.”10 A greater problem was that they were designed to preempt risks in shallow and relatively simple financial markets in emerging countries by advocating the emulation of “best practices” in major states, especially in the United States. Yet those practices were themselves growing incapable of comprehending and insuring against new hazards generated by massive, increasingly complex and highly innovative financial markets in the North. In fact, the regulatory threshold in the United States was lowered substantially with the repeal of the Glass-Steagall Act in 1999, which, by blurring the distinction between commercial and investment banks, opened the gates to the rapid growth in the market share of highly risky financial instruments in subsequent years. Meanwhile the Basel II Accord of the Basel Committee on Banking Supervision, the standard-setting body for the industry, introduced in 2004 new capital requirements that relied heavily on banks’ own internal risk assessments at the expense of universal criteria imposed by public authorities, echoing an ever-increased confidence in the self-regulatory capabilities of market players.

Why did not the crises of neoliberal globalization in the semi-periphery trigger greater regulatory vigilance across the system? One reason, of course, was continued “regulatory capture” by financial interests in the North through political lobbying, normative influence, and the chronic flow of executives between public office and the private sector.11 A more important factor could be found in the nature and aftermath of these crises. These were primarily national and regional failures with secondary systemic repercussions. While producing strong contagion effects (such as the quick spread of the Thai currency meltdown to other Asian economies in 1997, and the Brazilian and Russian crises aggravating subsequent episodes in Argentina and Turkey), they still fell short of destabilizing the system as a whole. Furthermore, the quick recovery from these turbulences ushered in an era of prosperity for the world economy characterized by a record expansion in trade volume, abundant liquidity and foreign direct investment, and respectable growth rates in every region. With the global economy in high gear between 2002 and 2007, calls for regulatory
upgrading in major states and stronger cross-border financial governance did not carry much weight.

The current catastrophe, the crisis of neoliberal globalization at the core, concludes this brief age of optimism. In its causes and reach, and as different from the antecedent troubles in the semi-periphery, it is primarily a systemic crisis with national dimensions (see Table 1). In the background of the US asset price bubble were not only grave failures of domestic regulation, but perhaps more crucially the "global imbalances" between surplus economies such as Germany and China and deficit countries such as the United States and the United Kingdom, locking in finance-led and debt-driven growth patterns in the latter.12 Meanwhile, the depth and the reach of the crisis owes much to an international financial architecture that rewards rent seeking and speculative behavior without offering effective fail-safes against the transmission of risk.13 Fixing these structural problems is an incomparably more difficult task than putting derailed market transitions in the semi-periphery back on track at a forgiving international economic conjuncture. It requires, first, a fundamental rethinking of economic models in advanced countries, and, second, much tighter and enduring coordination between major economies, some now outside the Northern core. On both counts there have been ambitious efforts over the past three years, yet with modest achievements so far.

A Brave New World?
The crisis has instigated two important shifts in the global economy. First, it has greatly undermined Northern models of capitalism, specifically the Anglo-American liberal market model and the continental European social (and co-

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<th>Table 1 Crises of Neoliberal Globalization: From the Periphery to the Center</th>
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<td>• Primarily national crises with secondary systemic repercussions</td>
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<td>• Short-term policy response predominantly stabilization oriented</td>
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<td>• Medium- and long-term response based on promotion of social and regulatory neoliberalism in emerging market countries via deep institutional reforms (post–Washington Consensus)</td>
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<td>• Followed by a period of strong growth in the global economy</td>
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ordinated) market economies, provoking substantive attempts by policymakers on both sides of the Atlantic to repair their broken systems.\textsuperscript{14} Second, it has produced an unprecedented drive for policy coordination and collective response among major states, with important changes in existing platforms of global governance.

Originating in the United States, the crisis has posed the greatest challenge to the Anglo-American liberal market system. The proximate cause of the catastrophe, the collapse of the US subprime mortgage market by mid-2007, provides the interesting story of how a concerted project of profitably reintegrating marginalized masses into a free-market society through elaborate financial trickery failed spectacularly.\textsuperscript{15} Aggravated by other factors such as faulty monetary policy decisions, the unraveling of this project with tragic human costs has brought to the surface the fallacy of two fundamental assumptions underlying the liberal market model. First, the presumed efficiency of self-regulating markets proved to be a illusion. Without proper public supervision and coordination, markets do not behave prudently but harbor systemwide destructive tendencies. Second, the virtue of state minimalism in social and industrial policy has been called into question. It seems increasingly impossible for the United States to retain its global competitiveness and level of human development without a renewed public commitment to industrial transformation and upgrading, and redoubling of state intervention in social sectors such as health care and education. Markets, in short, have failed to compensate for the multiple coordinative and social vacuums created by the Reagan-Thatcher revolution. After nearly thirty years of experimentation, policymakers in the United States and to some extent the UK are being forced back to the drawing board.

One would expect that the afflictions of the Anglo-American model would boost confidence in its prime competitor in the developed North; that is, the coordinated, social market capitalisms of Western Europe. Yet that is hardly the case. The European compromise between state and market, the historic quest of the European Union (EU) for the best of both worlds with institutional mechanisms aimed at a fine balance between market innovation and social welfare, could not withstand the global tempest either. The perceived regulatory superiority of European financial governance, exemplified in the EU's early implementation of the Basel II framework, proved insufficient in the face of a turmoil as severe as this one. The crisis not only brought down weaker banking systems in the margins of Europe, as in Iceland and Hungary, but also forced government bailouts of some major banks at the European core such as the German Commerzbank, French Société Général, Dutch-Belgian Fortis, and the Dutch ING, due mainly to their exposure to securities issued by US banks. Far more dramatically, costly rescue and stimulus packages amid declining revenues in 2008–2009 led to a rapid deterioration of the already precarious fiscal positions of European governments and triggered fears of
sovereign debt default in several countries. Of vital importance here is Greece, which narrowly escaped default in the spring of 2010 thanks to a €110 billion joint EU-IMF rescue package, only to find itself in a deeper trap a year later, threatening the future of the eurozone. With Portugal, Spain, and lately even Italy displaying signs of trouble down the path, it will take extraordinary political commitment and joint economic sacrifice on the part of core European economies to avert a disastrous disintegration of the monetary union.

At the root of Europe’s fiscal woes are not everyday policy miscalculations, but deep structural problems that are hard to fix: a social contract beset by high welfare expenditures, including large agricultural subsidies, troubled social security systems across the continent due to an aging citizenry and high unemployment rates, and nonoverlapping monetary and fiscal jurisdictions rendering threats to common currency by rogue members nearly unpunishable. While Europe was not as destabilizing a force in the global economy as the United States had been in the run up to the crisis, as of mid-2011 it appears to be more than rivaling this US role. Its persistent troubles make the European social model anything but a feasible alternative to the Anglo-American one.

Paradoxically, the most significant change for economic models on either side of the Atlantic since the onset of the crisis are signs of partial convergence over the past year between the failed Anglo-American system and the fragile European model. The Barack Obama administration has been keen to strengthen the regulatory and protective arms of the US state. Health care reform has brought the US system closer to European-inspired universal models whereas financial reform legislation has introduced a new oversight agency, stronger consumer protection, stringent regulations concerning financial derivatives, and limits on banks’ proprietary trading. Efforts in the UK have been more modest, but here too there have been plans to reassert public authority over the City (the UK financial system, with London as a global financial center), with former prime minister Gordon Brown leading the (so far failed) international chorus for a global tax on financial transactions to discourage speculative behavior (the Tobin tax). If Anglo-American capitalism is having its PWC moment, the EU is increasingly compelled to come to terms with its predecessor, the Washington Consensus sensibilities of fiscal austerity and limited social redistribution. Pension reform is on the agenda of most EU countries, and those facing serious sovereign debt issues, mainly in southern Europe, have already introduced drastic fiscal stabilization measures. There are of course severe political and institutional constraints to a genuine convergence between the Anglo-American and European models, but these efforts still represent the most notable shifts in policy thinking in the largest economies in the North over the past three decades.

Policymakers have been well aware though that, given the intense interdependence of national economies today, domestic or even regional reorganizations alone would have limited effectiveness in countering the current
emergency and avoiding future ones. Compared to past disruptions to world economic order, such as during the Great Depression and the oil shocks of the 1970s, national authorities this time around have sought to develop a more coordinated response based on renewed ideals of better institutionalized and more representative instruments of global governance. What makes this initiative even more remarkable is that it comes after a series of disappointments in multilateralism, exemplified by the impasse in the Doha Round of trade talks, the limitations of the Kyoto Protocol, and the controversy surrounding the Iraq War.

The linchpin of this increased international coordination is the transformation of the Group of 20 (G-20), which has replaced the G7 as the primary forum for global economic governance. Established as a platform for policy dialogue among finance ministers and central bank governors in the aftermath of the Asian financial crisis, the G-20’s stature was upgraded to meetings at the leaders level at its Washington, DC, summit in November 2008. Its promise is one of inclusion given that over one-half of its members are emerging market countries, and of representativeness since the group accounts for two-thirds of the world population and nearly 90 percent of the world’s GDP. From Washington, DC, onward, the G-20 summits have focused on the dual agenda of: first, aligning recovery strategies of major states, with an initial consensus on the need for sizeable fiscal stimulus packages; and, second, coordinating the international financial reform drive to avoid future emergencies, with banking regulation, accounting standards, and global nuisances such as hedge funds and derivatives at the center. The London summit of April 2009 saw a shake-up of related multilateral bodies. The Financial Stability Forum, another invention of the post-Asian financial crisis environment, was remorphed into the Financial Stability Board (FSB) with an enhanced membership and mandate, and the IMF and the World Bank’s resources were greatly increased to aid the recovery in low- and middle-income countries. Summits in Pittsburgh in September 2009, Toronto in June 2010, and Seoul in November 2010 engaged an even broader set of themes, including national growth and exchange rate strategies for addressing global trade imbalances along with global developmental challenges, although consensus on these themes remains elusive.

The principal novelty of the G-20 process is its formal recognition of the largest developing nations as important players in the reshaping of the post-crisis global economic order, which is often hailed as a step toward the democratization of global governance mechanisms. Still, both the G-20 and the FSB are consultative networks that bring together national authorities and international technocrats, and are not international organizations mandated with executive tasks to be carried out with their own resources. That function remains the prerogative of Bretton Woods Institutions such as the IMF and the World Bank, yet here too have been significant changes coincident with the G-20 spirit. One is the acceleration of the voice and quota reforms in the Fund
and the Bank already in progress since the mid-2000s; though modest, these changes promise to improve representation of, and access to resources by, middle- and low-income countries. Another is the overhaul of the IMF's lending framework, which included the phasing out of hard conditionalities from its standby arrangements and the introduction of new loan types such as the Flexible Credit Line (FCL) and the Extended Credit Facility (ECF). In an uncharacteristic move for an organization that preached fiscal austerity for most of its existence, the IMF has also identified limited fiscal expansion, in particular toward social protection, as a legitimate anticrisis instrument in some of its programs.17 Most important, the crisis has allowed both the Fund and the Bank to reenter the lucrative middle-income segment through a surge in lending. Since September 2008, the IMF has extended loans to more than two dozen MICs, which accounted for the bulk of the phenomenal increase in its approved commitments in developing and emerging areas from a measly SDR600 million in 2007 to a record SDR66.9 billion in 2009 and SDR79.8 billion in 2010.18 During the same period, World Bank lending also doubled, from about $25 billion to $58.5 billion.19 In short, the crisis of neoliberal globalization not only accelerates the shift in the governance structures and lending practices of the core international organizations that promoted this project in the South for three decades, but it seems to also empower them through an expansion of their financial presence in, and thereby policy influence over, developing and emerging market countries.

Dynamic Continuities

The structural challenges facing economic models in advanced capitalisms, the apparent move toward a stronger and more representative multilateralism in global economic governance, and the transformation and increased significance of key international institutions may collectively be viewed as portents of substantive reorganization in the global political economy. Yet there are severe obstacles for sustaining change in each of these dimensions. Furthermore, some important trends of the precrisis order seem to persist and even be reinforced (see Table 2).

One such trend is the rise of large emerging market countries as new poles of growth and dynamism. The shift in the center of gravity of the world economy toward the East and South continues apace, though perhaps a bit faster than before.20 Of the BRIC quartet, only Russia recorded a significant loss in output in 2009, due mainly to collapsing energy prices and demand. Brazil faced an equally explicable yet less severe deceleration in growth given its reliance on commodity exports, whereas India and China reported a mild slowdown as a testament to the resilience of their large domestic markets and dynamism of the regional economy. Some other large MICs such as Indonesia
and Poland also fared well within their regions, and many that were initially
hit hard have witnessed a more robust recovery in 2010 than most high-income
countries, as exemplified by Thailand and Turkey.

The main upshot of this relative resilience is that, for the overwhelming
majority of the world’s emerging powers, the crisis has created little incentive
for policy tinkering. Asian strategic capitalisms are alive and well, and so are
the hybrid models that other countries have settled on over the years. This also
means a general lack of incentives to alter their international economic policy
preferences. Behind the buzz surrounding the G-20 process, major emerging
powers should be expected to continue playing hardball in global trade and en-
vironmental talks. In this they may also recruit new allies across the develop-
ning world, not only because of ever-stronger South-South economic
interaction spearheaded by persistent incursion of the BRIC countries into
some African, Latin American, and Asian markets, but also because many
countries certainly took note of the fact that outside the Northern core the
brunt of the crisis fell on those economies lying in the immediate vicinity of,
and playing by the rules set by, the United States and Europe (i.e., Mexico,
most of Central America, and Central and Eastern Europe). Finally, with
greater prosperity comes political confidence leading to increasingly ambi-
tious agendas in international relations; even middle powers today tend to
adopt a more vocal and assertive stance in regional and global matters, at times

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openly taking on Western hegemonic interests as in the Brazilian-Turkish initiative to resolve the Iran nuclear crisis.

While the crisis has failed to rattle economic regimes in the Global South, the potential for systemic change that it unleashes in the North should not be overrated either. The divergent historical paths and reinforcing dynamics of Anglo-American and European capitalisms have been the central research question in the field of comparative political economy for the past two decades, and it is yet early to brand the current crisis as a transformative juncture in their evolution. Whether reformist leaders in the North could mobilize the necessary support from organized popular and elite interests to implement more radical changes in their politically and institutionally well-entrenched regimes is doubtful. Implicit efforts toward fiscal burden sharing in Europe spawned much public anger in large members such as Germany, whereas labor unions’ fierce resistance to proposed pension and labor market reforms jeopardizes the commitment to fiscal retrenchment in problem countries such as Greece and Spain.21 In the United States as well, the domestic reform drive has approached its natural limit. Ambitious by US standards, the original agenda of the Obama administration was already far from revolutionary. Intense political polarization amid the declining popularity of the administration complicates further reform. And while financial interests had to bow to more stringent domestic regulation, they also managed to successfully lobby the government to shelve plans on bank bonuses and help thwart the threat of a global bank levy during the Toronto summit.

Could the renewed multilateralism of the G-20 and the enhanced role of international organizations offer a remedy to these challenges to reform in the North and insure a more orderly rise of the South? Unlikely. Although the G-20 arguably provides the most genuine forum for economic policy dialogue among major powers since Bretton Woods, it faces two important limitations to serve as a vehicle for change. First, its representativeness is in question. Not only does the process exclude the “marginal majority” of some 150 countries (among them important middle powers such as Spain and several large African nations), but the non-G7 members have so far wielded little influence over the G-20 agenda.22 The multipolar spirit of the arrangement is yet to outgrow its Western genes, with the process currently involving an “amalgam of hegemony and collectivism.”23

Linked to the issue of representation is the second, and perhaps more important, matter of effectiveness. Predominantly a network of national leaders, the G-20 is incapable of identifying and promoting global public goods independent of specific national (and bloc) interests. The problem of conflicting interests gained an acute character at the Toronto summit; the US position against an early exit from fiscal stimulus was vehemently rejected by European leaders, while China, in fear of creating a binding precedence for the future, refused to be commended in the final statement for its recent move toward limited ex-
change rate flexibility. Even in a matter such as financial regulation, on which there exists agreement over broad principles, discord easily broke out over specifics, leading to the postponement of the implementation of new capital rules for banks. Rapidly differentiated paths to recovery, not just between the United States and the EU but more generally between advanced and emerging economies, have further undermined the already precarious commitment to global policy coordination. As a result, the Seoul summit had the least to show in the way of a consensus, with no concrete progress made in the dominating agenda item of global trade imbalances and currency wars.

But these may indeed be the better days of the G-20. With policy attention focused mainly on economic recovery and the contours of international regulatory reform thus far, many emerging market members have yet had a peripheral stake in the talks. This picture will no doubt change when more vexing matters of trade and environmental policy come to the table in full force, as illustrated, for instance, in the US proposal at Seoul to revitalize the Doha Round. Because progress in these areas will require sacrifices from the same national citizenries that have been promised better economic fortunes as a result of enhanced multilateralism, the potential for conflict will grow exponentially, in particular over the distribution of the burden of adjustment.

The preponderance of national interests in the G-20 leads to a wide agenda, but not a deep one. The absence of an issue-specific mandate and of organizational resources prevents it from producing original policy frameworks based on new expert knowledge, let alone enforcing them. For this, the G-20 relies on its member international organizations that are now put more firmly under the thumb of national leaders. Given the highly demanding requisites of the agenda, on the one hand, and the lack of deep agreement on crucial matters among states, on the other, it is uncertain what these international bodies can achieve.

This is a problem especially for the IMF and the World Bank, which have received a boost in resources and visibility but modest changes in other areas. As the principal international monetary authority, the problem of global imbalances has been a core concern for the IMF over the past couple of years, and yet it has no effective means at its disposal to convince surplus countries to shift their domestic demand policies or resist the temptation of self-insurance by reserve accumulation. By default, the Fund relies on loan conditionalities for steering member policies; at the same time, it is becoming increasingly difficult for the organization to engage larger emerging powers, with not only surplus countries like Russia but deficit economies like Turkey (the Fund’s biggest client by the mid-2000s) also staying clear from it during the crisis. And the limited scope of the governance reform in the IMF continues to hurt its legitimacy in the eye of potential borrowers, jeopardizing its ability to find clients once the emergency is over. Given this structural constraint, any initiative that the Fund might undertake to fix the international monetary system will ult-
mately have to be endorsed by the very national authorities which, thus far, have not even agreed on the direction of change.29

Finally, conspicuously missing from the current international policy debate is the acknowledgment of the need for new ways of addressing the developmental gap tormenting the poorest nations. Although a routine theme in G-20 summits, this other and certainly more tragic imbalance between citizens of rich and poor nations is not pursued with comparable conviction.30 As the stimulus money poured into the global economy far exceeds $2 trillion, the debate on the least fortunate remains tied to fiddling with new target dates for achieving the UN’s Millennium Development Goals (MDGs), a remnant of the 1990s. This was precisely the understanding expressed in the Seoul Development Consensus for Shared Growth during the latest G-20 summit, where proposals for “duty-free, quota-free” access to developed country markets by least developed countries were fiercely rejected in favor of a domestic growth-oriented and physical/human infrastructure-based strategy. In turn, with no new development ideas or initiatives in sight, most IMF and World Bank programs continue to rely on the heterodox PWC agenda of domestic institutional reform and non-market-distortive forms of social protection. Meanwhile, especially in the crisis-hit countries of the European periphery, the Fund and the Bank did not hesitate to roll out the usual austerity plans. The current lending boom takes place largely in a context of prescriptive continuity.

Paradoxes of the New Variant
What does the future hold for global political economy? The scale of change will largely depend on the pace and strength of recovery, around the world as well as in particular regions. A return to robust growth in the North—which at the time of this writing remains an unlikely scenario given the deepening European debt crisis, lackluster US economic performance, and the destruction in Japan—will possibly tilt the public response toward piecemeal, temporary fixes to structural problems of existing economic models and dampen the fledgling drive toward international collectivism held together by a sense of emergency. By contrast, a second dip in key economies or the absence of solid global recovery beyond 2012 may offer a new lease of life to the reform drive in the United States and Europe and rekindle the quest for policy coordination among major states through more thickly institutionalized modes of governance.

While predictions on these counts are difficult, the direction of change is clearer. Neoliberal globalization will prevail, but in modified form. Even under more pessimistic recovery scenarios, the notion and practice of a world economy organized around predominantly liberal market jurisdictions ever tightly interconnected by means of trade and capital flows are here to stay. The defeat of proposals for a global financial transactions tax, the delay in the im-
plementation of new bank capital rules, and the G-20's sustained opposition to protectionism from its first leaders' summit onward indicate that not even at the nadir of recession was there any realistic probability of wholesale retreat from this project. The crisis simply did not turn out to be cataclysmic enough to bring about a radical shift away from it.

Yet even under a highly optimistic scenario of universally robust recovery, modifications to the project are inevitable. The crisis painfully proved once and for all the fallacy of the simplistic late-twentieth-century variant of neoliberal globalization; namely, the ideal of a world profitably united behind the reign of self-regulating markets led by corporations headquartered in a handful of rich economies. That early variant, already a myth but one with major policy extensions, is now officially defunct. It is being replaced with a modified version that involves a heterodox liberalism and a multipolar globalization, putting states more firmly at the center in the process.

Thus, on the one side, there will be more extensive government intervention in normal times. While globalization has always been state driven, the coming decade should be expected to see new forms of public regulation and a heightened awareness of the social perils of integrated markets. National authorities, both domestically and through multilateral initiatives, will seek more sustainable forms of integration and stronger measures to protect their citizens. Yet this expanded role for the state is highly unlikely to translate into a radical extrication from neoliberalism. It remains difficult to imagine a global resurrection of historic instruments of Keynesian intervention with a return to open price controls, credit rationing, and extensive public ownership in manufacturing and service industries. The retreat from orthodoxy is more likely to stop at the point of "pragmatic neoliberalism" oriented toward market and social sustainability as advocated by the IFIs for well over a decade now.

On the other side, a larger number of states will be actively involved in deciding the rules for global markets. Not only the BRIC economies, but other emerging powers that are inching toward smaller G7 nations in economic size will also strive to preserve their newfound seats around the global bargaining table, with the possibility of significant reshuffling of existing alliance structures over specific issues. But just as the drive toward heterodoxy does not denote the wholesale repudiation of neoliberalism, the drive toward multipolarity should not be confused with a fallback from globalism. While open and implicit public interventions in currency markets and widespread imposition of capital controls by emerging market countries might at first appear as neomercantilist reactions, there are no real signs of a systemwide, calculated retreat from economic integration comparable to the new protectionism that had followed the recession of the 1970s. If anything, the crisis has triggered an explosion of bilateral and multilateral trade and investment agreements within the Global South as countries strive to diversify their export and import markets. Complex interdependence is now going truly global.
The Giobai Economic Crisis and Neoliberal Giobaiization

If this trend toward heterodoxy and multipolarity seems to be preferable to what existed before the crisis, consider also the potential paradoxes. One is about the development gap between nations. The crisis seems to expand the “policy space” available to developing country governments, which had shrunk considerably under the first incarnation of neoliberal globalism. Today, the scope for state intervention is extending considerably, and developing country representation in platforms of global governance is improving, which, in theory, should make future global rules more sensitive to their demands. However, the crisis also ends a period of growth optimism in the developing world. In the half-decade preceding the crisis, between 2003 and 2007, low- and middle-income countries grew at an astonishing average annual rate of 7.2 percent. And while emerging Asia led the pack, the surge in growth did not exclude regions traditionally marked by poor performance under globalization, with average annual rates approaching 5 percent in sub-Saharan Africa and 6 percent in Latin America and the Caribbean for the period—record figures for both regions since the 1970s. This was made possible by a buoyant world economy and resulted in respectable gains in human development, especially in poverty reduction.

The postcrisis context is unlikely to offer such a propitious environment for development. Already, there are signs of a prolonged period of “jobless recovery” in developing areas, putting further pressure on the vulnerable populations. Besides, addressing global trade imbalances bears significant potential costs for poorer nations; it might undermine their export capacity to key markets in the North while making Asian imports more expensive than before. Other risks involve a decline in aid flows due to fiscal bottlenecks in developed nations and, most crucially, the returning food price crisis attaining a chronic character to undermine decades of poverty alleviation efforts in some of the poorest nations. The question, then, is whether a modestly enhanced development policy space will be able to compensate for a less development-friendly world economic conjuncture. Ingenuity on the part of developing country leaders and citizens can help only so far. Few, if any, countries have the means to emulate the Chinese or Indian strategy. Preserving the developmental gains and recapturing the growth momentum of the 2000s will therefore require concerted international efforts to meet the different challenges of a new era. We need new strategies, and perhaps new modes of North-South and South-South cooperation. Unfortunately, development ranks far down the task list of the G-20, and the current international debate tends to revolve around variations of preexisting initiatives as illustrated in Seoul.

Another potential paradox concerns democracy. Attempts to reassert public authority over international financial markets, the voice and quota reforms under way in the World Bank and the IMF, and stronger representation of emerging powers through the G-20 process do promise improvements in accountability in global governance. But this is only half of the story. In the Global North, not only the crisis itself, but the subsequent policy measures
such as generous bank bailouts in the United States and UK and fiscal tightening in the EU also caused widespread discontent, eroding confidence in the ability of Western democratic institutions to protect the basic interests of their constituencies. An important outcome has been a growing disenchantment with globalization and the strengthening of nationalist and isolationist tendencies, most frequently expressed in anti-immigration sentiments in both the United States and the EU, at times with xenophobic undertones.

The consequences of the crisis for democracy in the Global South are more complex, and possibly more damaging. Certainly, the historic upheavals across the Middle East give hope to democrats everywhere, even though some countries in the region do risk unfavorable outcomes. But at a global scale, the fundamental question is whether leaders and citizens in developing countries will continue to perceive Western liberal democracy as the natural political counterpart of neoliberal globalization. The possibility of sluggish growth in the coming years is already an element of risk for democratic consolidations in developing regions. Yet the main challenge comes from geopolitical shifts. After three fruitful decades, the project of spreading Western democracy around the world is entering a subdued phase. The weakening of the democratizing ambitions of US foreign policy might be construed as a welcome change by many, but could the same be said for that of Europe? With the expansion of the EU largely in recess, and given the severity of the ailments afflicting the European model itself, the incentives for adopting European democratic norms and practices are at a low ebb in countries lying in the immediate vicinity of the Union, among them important experiments such as Turkey and Ukraine. A perhaps greater concern is the challenge posed by Russia, an illiberal democracy, and especially China, an outright autocracy. The continued rise of these powers, along with a few others with serious democratic imperfections scattered in Asia, Latin America, and the Middle East, creates knotty questions for democrats in other developing countries. It defies an almost 200-year-old belief in “market democracy,” in the organic interdependence between liberal state and capitalist enrichment. It provides niches of international recognition for countries with gross human rights violations such as Sudan and Iran. In time, it may also accelerate the ongoing shift away from broad institutions in IFI programs, with far less consideration in IMF and World Bank lending for issues such as the quality of governance, taking one more incentive off the table for borrowing countries to consolidate their democracies.

Although the emergent variant of neoliberal globalization so far offers little in the way of bridging the long-standing development and democracy gaps between nations, it is not altogether a bad place to start in dealing with some pressing global problems that emerged in more recent memory such as an international financial system capable of destabilizing even the strongest economies and, most crucially, mass production and consumption patterns that threaten the biosphere. Solutions to these problems are difficult, but more straightforward than eradicating poverty and oppression around the world. What is needed is tighter coopera-
tion among major nations, a promise currently embodied in the G-20. But such cooperation will prove improbable as long as it remains the sole prerogative of states driven by strategic interest, as evidenced in Copenhagen, Toronto, and Seoul. The move from hollow political compromises to truly transformative agendas requires stronger participation of other actors; namely, intergovernmental organizations, with greater autonomy and larger mandates, and international civil society groups, with expanded resources and coordination.

Notes

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6. Studies on the global rise of neoliberal policy norms variously emphasize the shifting preferences of economic and policy elites, the role of international financial institutions such as the International Monetary Fund and the World Bank, and the mechanisms of policy diffusion within the international system. See, for example, David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005); Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers*
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Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF*

Robert H. Wade1

Abstract
Many developing and transitional countries have grown faster than advanced countries in the past decade, resulting in a shift in the distribution of world income in their favor. China is now the second largest economy in the world, behind the United States and ahead of Japan. As the relative economic weight of China and several others has come to match or exceed that of the middle-ranking G7 economies, the world economy has shifted from “unipolar” toward “multipolar,” less dominated by the G7. How is this change being translated into changes in authority and influence within multilateral organizations like the G20, the World Bank, and the International Monetary Fund (IMF)? Alarm bells are ringing in G7 capitals about G7 loss of influence. According to a WikiLeaks cable from the senior U.S. official for the G20 process, from January 2010, “It is remarkable how closely coordinated the BASIC group of countries [Brazil, South Africa, India, China] have become in international fora, taking turns to impede US/EU initiatives and playing the US and EU off against each other.” This essay suggests that the shift in power is much smaller than the headlines or private alarm bells suggest. The United States remains the dominant state, and the G7 states together continue to exercise primacy, but now more fearfully and

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defensively. China is split between asserting itself as “the wave of the future” and defending itself as too poor to take on global responsibilities (it is roughly 100th in the per capita income hierarchy). The combination of G7 defensiveness and emerging states’ jealous guarding of sovereignty produces a spirit of Westphalian assertion in international fora, or “every state for itself.” On the assumption that the world economy is in a transitional period, the article suggests reforms in the G20 and the World Bank that would boost their role and legitimacy as multilateral organizations in a more multipolar world.

Keywords
global governance, multipolarity, multilateralism, G20, World Bank, IMF

Until the lions have their own historians, the history of hunting will glorify the hunters.

Swahili proverb

Growth has gone south; debt has gone north.

Quip about the long Atlantic slump

In April 2010, Robert Zoellick, president of the World Bank, gave a speech hailed by some as the most important speech of a World Bank president since Robert McNamara’s in 1973, when McNamara set poverty reduction as the Bank’s new mission. Zoellick’s main point was the end of the Third World—the end of the distinction between developed and developing countries.

If 1989 saw the end of the “Second World” with Communism’s demise, then 2009 saw the end of what was known as the “Third World.” We are now in a new, fast-evolving multipolar world economy—in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system.¹

Zoellick was in effect saying that the distribution of material power in the interstate system has become more fluid in the past decade than at any time since the beginning of the Cold War, and that we are finally at the end of the Truman era, which began in the early postwar years when President Truman called on the West to take up the challenge of using “our” knowledge and resources to deliver development to the rest of the noncommunist world. From a largely unipolar (noncommunist) world, with the United States as hegemon, we have moved to “a new, fast-evolving multipolar world economy” as economic weight and political power has flowed east and south. Zoellick went on to indicate how this multipolar world economy requires changes in the governance
Wade

and operations of the World Bank to make it more multilateral, and less dominated by the Western states.

Zoellick implied a hopeful answer to a basic question: Will the international system be able to induce rule-bound cooperation between states, given the falling concentration of economic activity and political power in the West and the growing number and importance of “global problems” (including global warming, regulation of cross-border trade and finance, migration, criminal networks, nuclear proliferation, cyberwar, and many more)? Will the aging post–World War II legacy organizations, like the World Bank and the International Monetary Fund (IMF), be able to reform themselves so as to reflect the new multipolarity, while also strengthening their ability to provide public goods to their borrowers and the world economy at large? Will Southern states—on the other side of the Truman divide—become sources of initiative in interstate organizations, not just participants and takers?

While Zoellick implied a yes, it is equally plausible that the growing number and diversity of states with enough weight in the world economy to exercise voice about international governance has a centrifugal effect, intensifying assertions of Westphalian sovereignty, and that Southern states show no more inclination to take on leadership roles than in the past, even as they claim a larger presence.

In other words, economic weight and influence in governance are different things. The “rise of (some of) the rest,” combined with surging global problems, may not induce the established states to compromise with the newcomers and may not induce the newcomers to compromise with the established states or among themselves. All the more so for those countries in economic slump, with populations facing interrupted rising expectations, whose governments like to respond to accumulating social anger by blaming outsiders. And all the more so for fast-growing China, with hundreds of millions of people experiencing relative deprivation as millions of fellow citizens become super-rich, while an authoritarian government tries to suppress news of domestic abuses of power and bristles at criticism from other states, interpreting it as infringement of sovereignty.

The outcome may be “multipolarity without multilateralism,” as newly empowered states go their own way. Respect for the dissenting views of the now more numerous players may shrink the scope of cooperative solutions to global issues and tend toward stalemate.

The G20 and the Bretton Woods organizations have their very identities rooted in inclusion of both Northern and Southern states. Governance reforms in all three since 2008 have been heralded as major advances in multilateralism. When the G20 was upgraded from finance ministers level to heads-of-government level in November 2008 (in the wake of the fall of Lehman Brothers and the onset of the global financial crisis), President Nicolas Sarkozy of France enthused, “The G20 foreshadows the planetary governance of the twenty-first century.” Stewart Patrick of the U.S. Council on Foreign Relations describes the G20 as “the most significant advance in multilateral policy coordination since the end of the Cold War.” Similar enthusiasm greeted the governance reforms at the World Bank and IMF announced in 2010. How should we interpret these claims?
First, I will introduce a more general discussion of polarity and governance, then return to the organizations themselves.

The Starting Point: The U.S.-Dominated Unipolar System

For most of the second half of the twentieth century, the United States was by far the largest national economy in terms of gross domestic product (GDP) and one of the most prosperous in terms of average income. It exercised political primacy in the noncommunist world, using its position to promote a liberal, market-based economic order.

The Bretton Woods system of the postwar decades up to the early 1970s did impose some constraints on U.S. policy through the dollar–gold link, but since its breakdown, the United States has been largely unconstrained in its monetary and fiscal policies by the need to take account of other states’ interests. For example, leading up to Paul Volcker’s decision to hike the Federal Reserve rate in 1979 (to curb U.S. inflation), the Fed did no analysis of the impact on the rest of the world, and specifically not on the impact on Latin America—which, having loaded up on debt from U.S. banks, was plunged into a decade-long debt-and-development crisis.5

Indeed, for the whole period from the 1940s to the 2000s, U.S. monetary policy was set almost entirely for U.S. objectives, although it strongly affected global economic conditions. Thanks to its currency also being the main international reserve currency, the United States was able to run current account deficits every year from 1992 to 2010, eighteen years—its deficit in 2008 being about the size of India’s GDP. These deficits strongly affected financial stability and economic growth in the rest of the world, but the rest of the world had no say in U.S. policies. As a senior U.S. official remarked, “The dollar is our currency but your problem”; or in the more colorful language of President Richard Nixon, “I don’t give a [expletive] about the lire!”

The United States has exercised predominant power in the IMF and the World Bank, crystallized in its monopoly of the presidency of the Bank and the number two position at the IMF, and its veto over decisions requiring a supermajority, the only state with such power. The veto enables the United States to block changes on its own, without the support of even one other state. Conversely, the IMF has always been very weak in its ability to discipline the United States. Joe Stiglitz tells how when he was chair of the Council of Economic Advisors he saw the Treasury ostentatiously toss the Fund’s Article IV consultation reports on the U.S. economy in the rubbish bin.6

U.S. choices were at the center of everything, not just in American eyes but also in European eyes. When it was the turn of a European country to chair the G7 or G20 meetings, the sherpa from that country routinely consulted his U.S. counterpart before consulting other Europeans. Only around 2000 did the German sherpa make a determined effort to consult with other Europeans before consulting with the United States.7
This is the substance behind *Financial Times* columnist Philip Stevens’ summary remark, “Membership of the west once meant doing whatever Washington said.”  

## Rise of Multipolarity

The rise of multipolarity (in the economic rather than bombs-and-rockets sense) means a fall in the concentration of economic activity in the international system and, within this, the rise of concentrations outside the previous core. The trend can be made more concrete by means of several indicators.

1. *Share of G7 (12 percent of world population) in global GDP:* In 2000, the G7’s share was 72 percent; by 2011 it will have fallen to 53 percent, according to the IMF (measured at market exchange rates).

2. *China’s rise:* Chinese output per head to that of the United States rose from about 6 percent to 22 percent between 1980 and 2008 (the proportion in 2008 was roughly similar to Japan’s in the late 1940s).

3. *Whose monetary policy matters to the rest of the world?* Ten years ago, the world paid attention to U.S. and EU monetary policy, and nobody outside China paid attention to China’s monetary policy. Today China’s monetary policy is closely watched, especially in New York; Washington, D.C.; and London.

4. *Share of developing and transitional countries (DTCs) in world output:* Between 2000 and 2009, the share of DTCs in world output rose by 10 percentage points, from 23 percent to 33 percent (measured at market exchange rates) and from 40 percent to 50 percent measured in purchasing power parity dollars. See Table 1.

5. *South-South trade:* In 1997, the ten biggest Asian exporters (excluding Japan) sent 46 percent of their exports to the United States, the EU, and Japan; in 2009, only 36 percent, the difference going to developing countries and oil exporters. China is now Brazil’s biggest trading partner, displacing the United States from its long-held top spot.

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### Table 1. Share of Developing and Transitional Countries in World Output, 1980–2009 (in percentages)

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Note: MKT refers to output converted at market exchange rates; PPP refers to output converted at purchasing power parity exchange rates.
6. EU and euro: The EU, for all its recent travails, is slowly becoming more cohesive than it was; and the euro is slowly becoming the world’s second main international reserve currency. (The share of the euro in world foreign exchange reserves rose from 18 percent in 1999 to 27 percent in 2009.) So the increasing economic cohesion in Europe—together with its sheer economic weight in the world economy—makes it a separate source of pressure on the international economic governance system.

For convenience, we can think of the new multipolarity in economic and financial affairs as involving three poles—the United States, the EU, and BRICs (Brazil, Russia, India, and China). This sets the context of the new Great Game, with four qualifications. First, the BRICs have little collective identity. The leaders of the four states met for the first time as a fraternity of rising powers as recently as June 16, 2009, in Russia. (However, for the past couple of years, the BRICs executive directors at the World Bank have met together once or twice a month, as have those at the IMF.) Second, when used as the third pole, BRICs have permeable boundaries and may include a larger number of states, including middleweights like Korea, Mexico, and Turkey. Third, the BASIC group (BRICs minus Russia and including South Africa) has also been meeting to concert actions in multilateral fora. Fourth, for some purposes, the operative G is the G2 (United States and China).

**Stronger Multilateralism?**

Has the big increase in the relative economic size of the world’s southern poles translated into stronger multilateralism in global economic governance?

Several indicators might be used. One is entry of new states to apex governing forums (such as the expansion of the G7 to the G20). Another is increased voting power of Southern states in international organizations. A third might be new agreements on global issues subscribed to by many states of North and South.

We also have to distinguish modes of participation. One is “hegemonic incorporation,” in which the organization becomes more inclusive, the larger body reaches agreements, but the agreements are scripted by the hegemon or hegemonic core. New members go along with the wishes of the dominant states and use their participation to secure national advantage within this constraint. A second mode is “multilateral cooperation,” where member states are willing to compromise in order to reach agreements and initiatives that come from across the membership, not just from the old hegemonic core. A third is Westphalian assertion, where states assert national sovereignties in the form of “nos,” yielding cooperation mainly for the purpose of blocking initiatives of others—which may be masked by agreement on fine words.

Participation in a given forum (such as the World Bank) will probably oscillate on a continuum between these modes, the center of gravity moving over time. And as multipolarity increases (as countries outside the old core become economically more powerful, and clusters of countries gravitate to form new poles), country clusters may act in
one mode internally (for example, cooperation or incorporation) and in another mode with other clusters in the same forum (for example, assertion).

**The Multipolar Governance Dilemma**

Multipolarity generates a higher premium on policy cooperation between sovereign states than a unipolar system does; but larger numbers of states with larger differences in their preferences, interests, and beliefs make cooperation more difficult to achieve and sustain. In the words of a report on the new U.S. national security strategy, “Strengthening ties is proving far harder than the Obama administration had bargained for, but it is difficult to see that it has any other choice.”

This is the “multipolar governance dilemma.” On the face of it, the dilemma has so far proved not too difficult. The formation of the G20 at finance ministers level in 1999 and its upgrading to heads-of-government level in 2008; the governance reforms at the World Bank and IMF announced in 2010; the new global rules on banking supervision, known as Basel 3, approved by the G20 leaders at the Seoul summit in November 2010—these and other developments suggest a real expansion of multilateral cooperation.

But look a little deeper and it is not hard to find evidence across many domains that interstate cooperation has either stalled (exchange rates, the Doha trade round, global warming) or has labored mightily to produce a mouse (Basel 3, the Cancun climate change road map of December 2010).

As for leadership, a study of transnational institutional innovations in the past one-and-a-half decades comes to negative conclusions about the role of Southern states and nonstate actors. Looking at more than 50 cases of institutional innovation—including transgovernmental networks (e.g., in finance, and accounting), arbitration bodies (e.g., the World Bank’s Inspection Panel), multistakeholder bodies (e.g., Global Polio Foundation), and voluntary regulation (e.g., Marine Stewardship Council)—it finds a pronounced North-South governance gap:

Many of the programs rely on Southern participation and serve the interests of Southern stakeholders, [but] none of the innovations in transnational governance gathered here can be described as a Southern-led initiative. Instead, Northern actors have driven institutional innovation: states, NGOs [nongovernmental organizations], corporations, and international organizations. While some of the innovative institutions (e.g., the World Commission on Dams . . .) have been careful to try to ensure Southern participation, and many of the programs target policies in the global South, Southern leadership remains limited.

Against this background, let us consider trends in the G20 and the Bretton Woods organizations.
G20

The G20, as noted, is a direct answer to the rise of multipolarity. It remains an informal grouping, a club. It is organized with an annually rotating chair and secretariat provided by the chair’s government. What the G20 says and does depends heavily on the chair, or on the ability of others to manipulate and incentivize the chair.13

Origins

The East Asia/Russia/Brazil crisis of 1997–99, with the Long-Term Capital Management crisis in the middle, provoked panic in the High Command of world finance. Federal Reserve chairman Alan Greenspan declared in October 1998, “I have been looking at the American economy on a day-by-day basis for almost a half century, but I have never seen anything like this.”14 Panic prompted an upsurge of proposals for a “new international financial architecture” (NIFA). The G7 finance ministers and central bankers quickly realized that a larger deliberation group had to be convened. Otherwise they would be like the captain of the ship who stands at the wheel turning it this way and that, knowing that the wheel is not connected to the rudder.15

The Europeans wanted the expansion to take the form of the G7 plus five “outreach” countries (the five invitees to be chosen ad hoc by the G7). The Americans and Canadians wanted a bigger and more representative grouping. This was an unusual response from the United States, whose general principle of multilateralism is “smaller and informal is better.” Behind the normative flag of “more representation,” the United States wanted to bring in more U.S. allies to counter the overrepresented Europeans, as part of a broader effort to de-Europeanize the governing boards of the IMF, the World Bank, and many other multilateral organizations in favor of DTCs.

The specific initiative came from Canadian Prime Minister Paul Martin and U.S. Treasury Secretary Lawrence Summers. The selection of the new members was made by Summers’ deputy, Timothy Geithner (then in charge of international economic affairs) and his counterpart in the German Finance Ministry, Ciao Koch-Weser, former managing director at the World Bank.16 In 1999, they had several transatlantic telephone calls, each equipped with a list of the world’s countries and their GDP, population, trade, and the like. They proceeded down the list, ticking some countries and crossing others: Canada in, Spain out, South Africa in, Nigeria and Egypt out, Argentina in, Colombia out, and so on. They sent their list to the other G7 members. Once approved, invitations were dispatched to the first meeting of G20 finance ministers and central bankers.

The G20 includes nineteen states plus the EU. The twelve newcomers meet the criterion of being large by GDP or population (though the resulting nineteen are not the nineteen biggest by either measure). The emphasis on sheer size means that the G20 could be called “multilateralism of the big,” or MOB for short. But the United States also shoehorned in some of its relatively small allies, such as Australia, Argentina, Saudi Arabia, and South Korea.17
As long as the G20 remained a gathering of finance ministers and central bankers, it had a useful but minor role in the play of events. Once it became clear that the East Asian/Russian/Brazilian crisis would not ricochet out of the periphery and into the West, the G7 finance ministers lost interest in talking about NIFA and began to lose interest in the G20 meetings. They sent ministers and officials of decreasing seniority.

The global crash of September 2008 revived the finance ministers’ meetings and prompted the government of George W. Bush to call the G20 leaders (G20L) together for the first time, to constitute an ongoing leaders’ forum. The leaders boldly announced their intention to make themselves the global economic steering committee. The communiqué of the second summit (London, April 2009) read,

We are determined to reform and modernize the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope and governance [emphasis added] to reflect changes in the world economy and the new challenges of globalization, and that emerging and development economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making.

The communiqué from the third summit, September 2009, read,

We designated the G20 to be the premier forum for our international economic co-operation. After this crisis, critical players need to be at the table and fully vested in our institutions to allow us to co-operate to lay the foundation for strong, sustainable and balanced growth.

**Legitimacy**

The G20 has unquestioned legitimacy in the eyes of its members, who collectively boost it as the top table of global governance (excluding matters of security and war, where the UN Security Council remains the apex). In its own words, its “economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system.”\(^{18}\) Indeed, developing countries account for half the seats (with Russia and South Korea included); and its members account for nearly 90 percent of world GDP and two-thirds of world population (though these figures questionably include the whole of the EU via the EU seat).\(^ {19}\) The countries that especially love it are the “last ones in the door,” the smaller countries whose claims to sit at the top table are most contestable, like Australia and Canada.

The giants also like it. For example, both the United States and China recognize that embedding their often-tense bilateral relationship in a larger grouping can dampen the tensions. China also boosts the G20 as the first top-level global body to reflect its global
role but not authoritative enough to press it to take on leadership responsibilities it does not wish to assume.

The G20 champions do not make a distinction between efficiency and legitimacy—indeed, the word *legitimacy* rarely passes their lips, and if pressed, they use it to mean no more than “representative” or “efficient.” They pirouette around questions about (1) the legitimacy of the process by which the twenty were selected, (2) the lack of explicit criteria for membership, (3) the principle of exclusive membership (with no rotation), and (4) the thinness of regional representation.

However, many states outside the G20 do question the G20’s legitimacy. The Norwegian foreign minister even described it as “one of the greatest setbacks since World War II.” The UN, as the embodiment of the principle of inclusive multilateralism, was a center of resistance to the upgrading of the G20 from finance ministers level to heads-of-government level, on grounds that the G20’s self-selecting, exclusive, nonrotating membership breaks a fundamental principle of liberalism—universality. Neither the secretary-general nor the president of the General Assembly were invited to join the G20 leaders in an ex officio capacity (as were the managing director of the IMF and the president of the World Bank). The UN General Assembly convened the UN Conference on the Global Economic Crisis in June 2009 as a rival forum, with lukewarm response from G7 members and outright hostility from the UN Secretary-General’s office, deferring to G7 wishes.

The G20’s critics emphasize that its composition meets no criteria that would justify the inclusion of Argentina (population 40 million) rather than, say, Colombia (46 million), or South Africa (50 million) rather than, say, Nigeria (158 million). They become incensed when they hear the G20 leaders announce from on high, as at the second summit, “We will reform [the international financial institutions’] mandates, scope, and governance.” By what authority do the G20 leaders supersede the legitimate governing bodies of these organizations (the Development Committee for the World Bank and the International Monetary and Financial Committee for the IMF)? they ask. By what right do the G20 leaders call for a change of voting shares in the World Bank in favor of developing countries by at least 3 percentage points and in the IMF by at least 5 percentage points? When they hear the managing director of the IMF claiming at IMF board meetings that *he* is the legitimate representative of the non-G20 DTCs at the G20—implying that despite appearances to the contrary, the non-G20 DTCs are well represented at the top table—they are incredulous. Indian representatives sometimes counter in private that since India is the poorest of the G20 states, *it* has the right to, and does, represent the poorest countries.

Since the first two summits, in November 2008 and April 2009, regional bodies have pressed for inclusion. The African Union has said that Africa is woefully underrepresented (only by South Africa), and that a seat for the union would help. The Association of Southeast Asian Nations (ASEAN) has said the same. The G20 has responded by inviting ASEAN to nominate a country to represent it and the African Union to send representatives from two of its member states. So at the Seoul summit, November 2011, twenty countries represented themselves alone (the nineteen plus Spain, which...
has managed to wangle the status of “permanent guest”); four countries represented collectivities (two from the African Union; one from ASEAN; Singapore represented the Global Governance Group, which covers 28 small states); and the EU occupied one seat.\textsuperscript{23} In effect, the G20 has become the G20 + 5.

However, the complaints have not gone away. The Nordics, for one, argue that since the Nordic-Baltic economies are the ninth biggest economic bloc in the world, they should be at the top table. But they and other critics can equally turn rejectionist and say that as long as the G20 permanently excludes 168 countries of the World Bank and IMF and 172 countries of the UN, it cannot be deemed a legitimate global body, period.

**Effectiveness**

The G20 was created to promote multilateral cooperation, but in the context of a system still largely dominated by the United States—the system Philip Stephens referred to when he said, “Membership of the west once meant doing whatever Washington said.” As multipolarity has increased since 1999, how have Southern states participated in the G20? In the mode of hegemonic incorporation (where the DTCs accept the G7 consensus), multilateral cooperation (where the DTCs do not simply rubber-stamp the G7 consensus; they undertake initiatives, and all members are prepared to find compromises on matters they did not initially agree about), or Westphalian assertion?

For most of its history, the finance ministers’ G20 has functioned toward the hegemonic incorporation end of the spectrum. All the way through, it has been standard practice for the chair country to send proposals for the meeting and the communiqué (drafted before the meeting starts) to the U.S. government first to get its views.\textsuperscript{24} A report from the G20 finance ministers’ meeting in South Korea in October 2010, chaired by the Koreans, said that the ministers had had “intense talks—built largely around an agenda the United States brought to the meeting.”\textsuperscript{25}

Not that the United States has dominated in an overt way; its representatives have often played the strong, silent types, content to let U.S. muscle do the talking. The key animators and organizers have been the Canadians and the Australians (“last in the door” of the Anglo states). They repeatedly got the G20 working groups and ministers’ meetings to endorse the formula that “globalization works,” where globalization policies amount to privatization, liberalization, and stabilization, plus social safety nets. The World Bank provided support for this agenda, sending reliable staff to address G20 technical meetings.\textsuperscript{26}

At these meetings, the representatives from the DTCs tended to sit passively, contributing little to the agenda, the debate, or the communiqué. They felt at a disadvantage because the language of the G20 is English, and because they did not have a good feel for the informal ways of G7 diplomacy that the G7 representatives used to run the G20. They had won an important symbolic gain just by being present, “equal” alongside the United States, Europe, and Japan.
There is not much sign that the finance ministers’ G20 has been able to coordinate governments into mutually desired outcomes—and it certainly cannot induce them to undertake unwanted but necessary policies. One reason is that the G7 has by no means been eclipsed, and indeed, from the beginning, the G7 saw the G20 as a way to leverage its influence via the larger body. The Canadians are especially keen on keeping the G7 going, because in it, they have more influence than in the G20. So instead of the G20 replacing the G7 (or G8 at leaders level), it has become an additional forum, diluting its claim to be the top table.

For all its ringing declarations about global leadership (“We designated the G20 to be the premier forum for our international economic co-operation”), the leaders’ G20 has no means of enforcing its agreements. It decided at the first summit in 2008, in Washington, to eschew trade protection, but some of its members broke the promise as soon as they walked out the door. It decided at the same meeting to boost government spending, but almost all the programs announced after the summit—as evidence of G20 cooperation—had already been decided on before the summit. Similarly, it promised to treble the resources of the IMF up to $1 trillion, making an arresting headline; but as Ngaire Woods reports, “the new financing for the IMF is mostly credit lines,” which allow it to borrow more when it thinks its present resources are insufficient to meet members’ demands, and borrow mostly from the G7 states, which ties the organization back into the G7 orbit.

However, in recent years, the United States and its allies (including the United Kingdom, Canada, and Australia) have by no means gotten their own way in terms of the internal discussions and agreed-upon conclusions. Developing country members have not had much role in setting the agenda but have become more active in reacting, sometimes fighting back. They can and do apply an informal veto. Examples include China on the subjects of “global imbalances” and “exchange rates”; and many developing country members were active in shaping what the G20 said and did not say in the run-up to the Copenhagen climate summit. We could interpret this DTC participation as moving from hegemonic incorporation toward Westphalian assertion.

This is what the top U.S. official for the G20 process was referring to in January 2010 remarks to EU officials (made available on WikiLeaks):

It is remarkable how closely coordinated the BASIC group of countries . . . have become in international fora, taking turns to impede US/EU initiatives and playing the US and EU off against each other. BASIC countries have widely different interests . . . but have subordinated these to their common short term goals to block some western initiatives.

At the Seoul leaders’ summit in November 2010, the wheels fell off. The “fellowship of the lifeboat” that prevailed in the acute phase of the global crisis vanished. The Financial Times headlined its comment, “The G20 show how not to run the world.” It described the “action plan” as “déjà vu,” “similar to past failures.” The G20, it said, “is
doing little to assuage fears of an impending conflict over currencies and trade, and its vague communiqués can do little to disguise the bitter divisions.”

**The World Bank**

The World Bank remains the world’s premier development agency, especially as generator and sustainer of beliefs about the best policies and institutions for development. It has been a prime beneficiary of the global economic crisis, to the point where its lending commitments in fiscal year 2009 were three times higher than two years before. The middle-income countries—the ones best placed to walk away from the Bank and borrow from private markets under their own names or from regional development banks—have come out in strong support. The days of the early 1990s, when a powerful NGO movement with much influence in the U.S. Congress was campaigning to close down the World Bank and IMF under the slogan “50 years is enough,” and when a powerful right-wing American constituency that disliked multilateralism and foreign aid was pushing for much the same, are long gone.

**The Package of Reforms**

The spring meetings of the Bretton Woods organizations in late April 2010 may be looked back on as a seminal event in the organizations’ history. The governors of both—ministers from the member countries—agreed on the outlines and some specifics of reforms hailed as equipping them for the new multipolar era (recall Zoellick’s speech in the run-up to the spring meetings).

The World Bank reform package includes five main components:

1. Voice: Increase in shares and votes of Part II (borrower) countries.
2. Capital increase: To support future lending.
4. Internal organization: For example, further decentralization out of Washington, D.C.
5. Internal governance: For example, organization of the board, relations between board and president.

**Causes of the Reforms**

The impetus for voice reform was building for several years before the global economic crisis, focused on the fact that the Part I (high-income, nonborrowing) countries had well over half of the voting shares. Moreover, the United States on its own, and the western Europeans acting as one, both wielded a veto on important (“supermajority”) decisions. The Monterrey Consensus in 2002 stated that the Part IIs should have more
voice in international organizations, in line with their rising weight in the world economy. But the Part I countries dragged their feet. Voice reform was not their priority.

The formation of the leaders’ G20 in 2008, at the initiative of President Bush, gave new impetus. Now the top political leaders were dealing face-to-face, and the developing country leaders put the voice demand firmly on the table. They readily agreed to put forth a demand for a bigger share of votes, while disagreeing on much else. Moreover, the U.S. government came to see support for the change as a way to hit two birds with one stone—to cut Europe’s (alleged) overrepresentation and to strengthen its alliances with the BRICs.

At this time of crisis, the World Bank and IMF both faced soaring demand for loans. As the Bank’s lending commitments rose, it became clear—at least to some senior World Bank officials and some member states—that it needed a big general capital increase (GCI) just to avoid having to cut back its lending sharply in future years in order to stay within its prudential limit, let alone to expand its future lending.

But all the G7 states opposed a GCI, especially the United States, the United Kingdom, and France. Right up to the summer of 2009, President Zoellick insisted that the Bank could boost its lending by making “efficiency savings.” Only at the annual meetings in Istanbul in September did he finally lend support to a GCI. Why the G7 reluctance to support a GCI?

The G7 governors, executive directors, and many other Part I states said they would have a hard time persuading their parliaments—especially the U.S. Congress—to increase funding for the World Bank at a time of fiscal stringency at home (even though the amounts of paid-in capital are tiny, only about 5 percent of pledged or “callable” capital). The western Europeans were doubly doubtful, because they knew that they were going to lose voting shares in the voice reform, so they would be paying in more capital at the same time as they lost votes.

During 2009, the World Bank management (with grudging permission of the president) worked intensively to demonstrate to doubtful Part I executive directors that if the World Bank did not get a big general capital increase, it would have to cut back its lending by 2014 to far below the rate before the global economic crisis. This evidence eventually persuaded many Part I executive directors that the World Bank had to have a GCI.

So the Part I governments began to say, We’ll consider a GCI, but first you must make big reforms in internal organization. As U.S. Treasury Secretary Geithner said, “Donor countries are facing severe financial constraints at home; [so] we will be seeking critical institutional reforms in any consideration of additional resources.”

As the board and the management worked on the reform package, the Part I governments reluctantly accepted that the GCI had to come now.

So the main driver of the reform package at the World Bank was demands by external shareholders, led by the United States, for reforms that looked bold and could be sold to legislators as quid pro quo for more capital at a time of fiscal stringency. This is the short answer to why the governors approved the reform package at the spring
meetings in Washington, D.C., in April 2010 and why the package was boosted as a “New World Bank for a New Multipolar World.”

What Do the Reforms Amount To?

When the reality becomes visible through the mist of euphoria, the reforms look modest. Most of the Part II executive directors feel disappointed but not surprised, with the important exception of the Chinese executive director, who takes the view that they are a positive first step—in the spirit of crossing the river by feeling for the stones one at a time.

1. General capital increase. The agreed increase in the capital base is actually very small, probably only big enough to allow the Bank to sustain beyond 2014 the same level of lending in real terms as in the early 1980s.

2. Voice reform. The G20 leaders’ meeting in September 2009 declared that the World Bank should raise the share of Part II votes by “at least 3 percentage points,” and this statement, interpreted as “3.13 percentage points,” constituted the Development Committee’s and executive directors’ marching orders. The shift would raise the Part IIs’ share from about 44 percent of the votes to about 47 percent.

This fell well short of what Part IIs were demanding: parity, or 50 percent. How were the 3 percentage points arrived at? By the ancient haggling principle of “split the difference.” Three percentage points on the existing 44 percent brought the Part II share up to half of the Part IIs’ demand.38

Once the G20 had laid down the target, the board spent months of nearly 24/7 negotiations to allocate the change in shares among member countries. As one observer said, the process became a search for “compromises at the third decimal point.”39

The negotiations were guided by the general principle that voting power should be proportional to economic weight in the world economy, translated into a formula. But the formula was highly contested—and called a “framework” rather than a “formula,” on grounds that “formula” sounded like something permanent, which would set the starting point for the next round of negotiations. The United States said it should be based largely on “weight in world economy as measured by GDP at market exchange rates”; and not coincidentally, the United States is underrepresented in the World Bank by this criterion. Europeans said that the formula should also include “contributions to the poverty-reduction mandate of the World Bank, as measured by IDA (International Development Association) contributions”; and not coincidentally, Europe’s are much bigger than those of the United States. Many Part II countries argued that the only criterion should be a country’s share of world GDP in purchasing power parity terms—which would substantially raise the share of the Part IIs. Eventually a compromise was reached: the GDP metric should be weighted 60 percent at market exchange rates and 40 percent at purchasing power parity exchange rates, reflecting the continuing tilt toward the Part I countries.40

But beyond the general principle that votes should be related to GDP, what really happened was, in the words of a close participant, “a messy and opaque process of reverse engineering of political deals, which caused a lot of bad blood.”41 One of the
Bank’s main officials on the voice reform resigned from the Bank because she could not stand to go on spoiling her life in such bizarre and bitter wrangling.

In the end (including the entire change in voting shares since 2008),

- The headline jump in the Part II share from 44 percent to 47 percent was misleading. More than a dozen countries which by the Bank’s criteria should have been counted as Part I (“high income”) were counted as Part II. They include South Korea, Singapore, Saudi Arabia, Kuwait, Poland, and Hungary. If added to the “high-income” countries, the latter end up with a bit more than 60 percent of the vote (60.95 percent).

- Within the Part I countries, the western Europeans combined lost the most, Japan lost the most of any single country, and the United States effectively stayed the same.

- Being described as a “Part II gain” concealed that most of the shift went to a small number of middle-income countries, notably, China, Brazil, and Turkey. Of the BRICs, Russia did not gain and India gained only a little.

- The middle-income countries now have about a third of the votes.

- None of the low-income countries lost, but few gained, and then insignificantly.

- The low-income countries have 4.46 percent of the votes.

- China won respect by giving up about half of its entitled increase in shares (by share of world GDP) so as to allow this half to go to other Part IIs. (If China had not done so, it would have received the whole of the 3 percentage-point shift.)

- China plus India increased their combined share from 5.56 percent to 7.33 percent, compared to Belgium plus the Netherlands’ fall from 4.01 percent to 3.49 percent. This gives China plus India 110 percent more share than Belgium plus the Netherlands. But if shares were proportional to GDP shares (the Bank claims this to be the guiding principle), China plus India should have more than 600 percent of the share of Belgium plus the Netherlands. Other middle-income countries are similarly underrepresented and high-income countries overrepresented.

- Under the formula relating the capital increase to the change in shares, Russia and Saudi Arabia were destined to lose shares. Russian Prime Minister Vladimir Putin and his Saudi counterpart informed the president in imperative tones that they would block the whole voice reform if they lost shares. (The Articles of Agreement say that a change in voting shares must be agreed upon unanimously to be valid.) So the architects of the voice reform changed the formula in such a way as to enable these states to gain back what they would have lost—by pledging an additional amount for the next International Development Association (IDA) subscription (IDA16), and weighing these future contributions much more heavily than countries’ past contributions (to the anger of the IDA-generous Nordics). Several other idiosyncratic arrangements were bolted on to accommodate the determined defense of existing voting shares by the top leaders of certain states, using the threat of veto.

- The voting shares are due to be revised in 2015, not before.
3. **Strategy.** The focus on voice reforms at the third decimal point meant that other issues, especially the Bank’s strategy for the new multipolar age, were eclipsed. This suited the Part I countries well.

The strategy document is short, vague, and platitudinous, containing little to disagree with. It presents no new vision for a larger World Bank. Strip away the fluff and it reduces to something close to “business as usual”—to be done in a more decentralized way than before. However, the fact of its existence satisfied the demand of the Part I governments that the Bank show them what it was going to do with the additional resources made possible by a GCI.

The many drafts of the strategy paper, up to the last two (a couple of weeks before the April 2010 meetings), began with the following sentence:

*The vision of the World Bank Group is to support an inclusive and sustainable globalization—to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope.* (emphasis added)

This reflected Zoellick’s wish to pavilion “globalization” with praise. Many middle-income countries, whose representatives question the Bank’s long established focus on poverty reduction, have supported him. They say that a World Bank devoted to poverty reduction will go out of business, because the middle-income countries want to borrow from it not mainly for poverty-targeted projects but for general development projects, especially infrastructure.

The Nordics protested again and again at the draft strategy’s prioritizing of globalization over poverty reduction (after all, they were arguing against a cut in their voting share on grounds of their generous support to the Bank’s poverty-reduction mission). Finally, at the last minute, their efforts paid off. The strategy team revised the headline statement to read,

*The vision of the World Bank Group is to overcome poverty—by supporting an inclusive and sustainable globalization, enhancing growth with care for the environment, and creating individual opportunity and hope.* (emphasis added)

The headline reaffirms the vision statement that has been displayed in the foyer of the main building of the World Bank since the days of James Wolfensohn’s presidency in the mid-1990s. But in the intervening years, several of the letters have lost their moorings and now droop at decrepit angles.

**The IMF**

Following G20 instruction, the IMF’s governing body agreed at the annual meetings of October 2009 on “a shift in quota share to dynamic emerging market and developing countries of at least 5 per cent from over-represented to under-represented countries.” This ungrammatical sentence was a fudge, to conceal disagreement on whether the shift should be to *dynamic* emerging market *or* to DTCs as a bloc *or* to underrepresented countries (in the latter case, Spain, Ireland, and Luxembourg would also gain).
By November 2010, the board agreed on a 6 percent shift—boasting that it had exceeded the G20 target. Hidden in the small print was the fact that the shift was to dynamic emerging economies only. The changes will make China the third largest shareholder after the United States and Japan and vault India, Russia, and Brazil into the top ten. As at the World Bank, the loss to “advanced countries” is very small: from 57.9 percent to 55.3 percent, or 2.6 percent. But as also at the World Bank, South Korea and Singapore were counted as dynamic emerging markets, though the IMF itself normally classifies them as “advanced.” With them in the advanced category, the advanced states lose only 2 percent. Meanwhile, Africa as a group loses voting share from 5.9 percent to 5.6 percent.47

These shifts form part of a larger package, which include changes in the composition of the seats on the board. Here the Americans made another attempt to curb Europe’s alleged overrepresentation by forcing the “advanced European” countries to give up two of their eight seats on the Fund’s twenty-four-seat board.48 They forced the issue by announcing with little notice before the October 2010 annual meetings that they would not approve the continuation of twenty-four seats on the executive board. The Fund’s Articles of Agreement stipulate a twenty-seat board, and the enlargement to twenty-four has to be approved by the board every two years. Thanks to their veto, the Americans can block it. (Key Fund decisions require approval by 85 percent of the voting shares, and the United States has 17 percent.) Having previously automatically approved, their sudden refusal threw the board and the Europeans into panic. Who would lose their seats?

To cut a long story short, Managing Director Strauss-Kahn, perhaps with an eye to a top position in European politics, launched a diplomatic drive to limit the damage to Europe. He and the Europeans largely succeeded. By the time of the Seoul G20 meeting in November 2010, the Americans again agreed to approve the twenty-four-seat board, while the advanced Europeans agreed to give up some positional authority by going from eight to six seats. This is not exactly a revolution.

The advanced Europeans are just starting (early 2011) to negotiate among themselves about how the loss of seats will be distributed among themselves. Seats can be sliced up, such that if Belgium, which has represented a constituency of countries including Turkey, were to share the executive director position with Turkey in rotation, this would count as advanced Europe’s giving up half a seat. If Spain were to exit from the constituency where it now shares a seat with Mexico and Venezuela, this would count as advanced Europe giving up one-third of a seat. Once it is clearer how the loss will be distributed, negotiations will begin over how the two-seat gain will be distributed. It is quite possible that western Europe loss will go mostly to eastern Europe, so that the transfer becomes one within Europe (plus Turkey). The outcome is unlikely to be clear before 2013.

Strauss-Kahn called the agreements “historic.” Certainly they are bigger than previous changes, but hardly major relative to the rise in multipolarity. Nevertheless, tensions have been diffused, limited agreements reached, important issues kicked into the future. Europe has lost much less than looked likely in the summer of 2010; DTCs as a group have gained much less. Within the DTCs, China gained the most by far (it is
now the IMF’s third biggest shareholder); Brazil and some “honorary BRICs,” like Turkey and Mexico, also gained substantially; and now DTCs have four of the top ten shareholding positions, having earlier had two. The United States, having forced the issue of seats and demonstrated its commitment to a general power shift from Europe to the South, can expect the winners to show gratitude.\textsuperscript{49}

Conclusions

We have entered a time of more turbulence in global governance than for many decades. The turbulence reflects (1) the increasing share of global economic activity outside the established Atlantic states plus Japan, (2) the associated growth of excess production capacity relative to effective demand, (3) the efforts of states to blame outsiders for their troubles and shift unemployment elsewhere by boosting exports as they contract domestic demand, and (4) the West’s preternatural fear of China.\textsuperscript{50}

This essay has discussed some of the institutional innovations made or proposed in response to the new international distribution of economic activity. It has illustrated how the tension between the newcomers and the old G7 is playing out—right down to the capillaries (third decimal point) of world politics. On the one hand, the advanced countries attempt to incorporate newcomers into their own beliefs and preferences for the global meta-agenda of economic policy (“globalization” in the sense of further market expansion plus social safety nets for the poorest, together with, post-2008, some tighter financial regulation). On the other hand, the newcomers demand more voice but without as yet much coordination of beliefs and preferences among themselves. (But recall that the BRIC executive directors at the World Bank and at the IMF have started to meet once or twice a month.)

The transition from the waning to the emerging global order is clearly proving tricky. In terms of the multipolar governance dilemma, economic multipolarity, particularly at a time of economic slump, is generating more demands for interstate cooperation; but the supply response in the form of political multilateralism lags far behind. The G20 and the Bretton Woods organizations continue to show more “hegemonic incorporation” and “Westphalian assertion” than “multilateral cooperation.”

The Americans and the Europeans are ambivalent about ceding some leadership to the DTCs, sometimes cooperating among themselves and sometimes falling out on what changes should and should not be made. At the World Bank, the Part I countries as a group dragged their feet on significantly increasing the Part II voting share, \textit{and} on increasing the general capital base, \textit{and} on opening the selection process for the heads of the World Bank and the IMF to global recruitment without nationality restrictions. And they cooperated to ensure that the real shift of votes to DTCs was much less than the headline.

The U.S. executive branch is fixated on a power play, first, to retain its veto in both organizations and, second, to retain the presidency of the World Bank. If it keeps these two things and does not have to pay in more capital, it is not too worried. The U.S. Congress is even more adamant about protecting U.S. dominance in both
organizations, which it treats as arms of U.S. foreign policy. For example, the U.S. Senate demanded (March 2010) that the Obama administration maintain “United States voting shares and veto rights at the international financial institutions,” and preserve “U.S. leadership of the World Bank and senior level positions at the other international financial institutions.”51 U.S. Westphalian pressure may well intensify in the wake of the November 2010 U.S. congressional elections, which returned a Republican majority in the House of Representatives. U.S. foreign policy may become more unilaterally assertive, self-righteous, and self-pitying than in the first two years of the Obama administration, because American conservatives unify around the belief in America’s unique virtue and its corollary that the rules for others do not necessarily apply to the United States. Hence, many conservatives are reluctant to adapt to the rise of new centers of power, and want to rely instead on “coalitions of the willing” or a “concert of democracies.”

At the IMF, the Europeans have seemingly snatched victory from the jaws of defeat as they pushed back against U.S.-led attempts to curb their overrepresentation. They have particularly focused on the U.S. veto, knowing that the Americans place high importance on retaining it and knowing that it is widely recognized as illegitimate. The Europeans therefore say that if Europe is to give up some authority to the DTCs, so, too, must the United States; above all, the United States must give up its veto. As the German executive director to the Fund said in late 2010,

> It [the veto] is anachronistic at this point. For one country, no matter how big it is, to have the right to dominate decisions in that unique way is not legitimate anymore. If you talk about legitimacy, that’s the major flaw in the organization.52

Faced with the prospect of European-led challenges to their sacred veto, the Americans have softened their drive against the Europeans.

As for the DTCs, they wish to be at the top table, in global governance, but are wary of more global governance (which would curb their sovereignty) and wary of proposing initiatives that would put more responsibilities on their shoulders. This helps to explain the otherwise puzzling fact that at the World Bank, countries that should have been graduated to the Part I category according to the income-per-head criterion (like South Korea, Saudi Arabia, and Kuwait) resist. One reason, noted earlier, is that the Part I countries wish them to continue to be classified as Part II, so that the shift in votes to “true” DTCs is less than it seems. But they themselves also wish to continue in Part II because once graduated, they would be expected to (1) contribute more capital, (2) give up voting share, and (3) share the burden of global responsibilities.

Meanwhile, China, the world’s biggest creditor state, is becoming increasingly assertive, even swaggering, as the ruling Communist Party tries to show that it has made China a respected world power, not to be pushed around by anybody. It is drawing sharper distinctions between its own and others’ national interests, as seen in its responses to rising tensions on the Korean peninsula and in the South China Sea.
To my knowledge, there is no body of theory that might shape our expectations about the gap—large or small, increasing or diminishing—between economic globalization and multipolarity, on the one hand, and political globalization and multilateralism, on the other. It remains an open question whether the gap will reduce or widen over time. The optimistic answer is that surging global problems plus repeated interaction within the expanded body of leading states, in many international organizations, will generate convergence in both solutions and enmeshed beliefs about causes (as repeated interaction among the Permanent 5 of the Security Council has helped to maintain the peace between them—with occasional exceptions—for more than 60 years, an epochal achievement).

The more pessimistic answer is that while bits and pieces of agreements (loosely coupled regulatory systems, or “regime complexes”) may be forged by overcoming coordination problems of the prisoner’s dilemma kind (where the parties agree on the nature of the problem), bigger advances in the form of strong, integrated regulatory systems (“comprehensive regimes”) are blocked by differences in enmeshed beliefs about the nature of the problem, now combined with deep tensions resulting from the economic slump in the Atlantic economies. Making enmeshed beliefs converge, especially when economic tensions run high, is more intractable than solving coordination problems.\textsuperscript{53}

Think, for example, of the profound differences between the Chinese and U.S. governments in their diagnosis of the causes of China–U.S. payment imbalances, which go far beyond differences of the prisoner’s dilemma type.\textsuperscript{54} China says the root of the problem is loose U.S. monetary policy and excessive borrowing since the early 2000s; the United States fingers China’s pegging of the yuan to the dollar, which results in yuan undervaluation and unfair advantage for China’s exports. On the basis of these different diagnoses, the two governments are now adopting recovery policies that undermine each other, at cost to the rest of the world as well as themselves. The United States continues to rely on cheap money policies, whereas China continues to keep the yuan loosely pegged to the U.S. dollar and continues to emphasize export growth. Cheap U.S. money goes in search of strong returns, which contributes to increases in commodity prices (agriculture, metals, oil) and in inflows of capital to China and other developing country markets. These flows stoke the imbalances even further.

Clearly the repeated interaction between China and the United States in multilateral forums like the G20 and the Bretton Woods organizations has not been sufficient to generate convergence in their understanding of the root causes of global imbalances or complementarity in their policy responses. Yet, think how much worse things would be in the absence of such forums, as in a pre–World War II type of order. In such a world, the imbalances would be reduced through bilateral assertion, elephant against elephant, as the United States creates dollars without limit and China responds by creating yuan without limit with which to buy the dollars and prevent yuan appreciation. Innocent bystander states suffer, and the world moves from currency wars to even worse trade protection wars.

Whether this outcome now can be avoided will be a test of the diffuse value of global forums. Hopefully, they will soften bilateral tensions between the giants by embedding
them in cross-cutting ties, which expose them to pressure from those sitting alongside whose economies suffer because of their actions. And hopefully they help the rising states to learn about open debate and superpower diplomacy. In this optimistic spirit let us consider how their role and governance might be improved.

Reform of the G20

The G20, as we saw, is beginning to intervene directly into the Bretton Woods organizations, by setting reform directions and deciding on shifts in voting shares. This may be temporary: once the Atlantic recession lifts, the non-G20 may resist its interventions sufficiently for it to find something else to worry about. On the other hand, an increasing proportion of top appointments in both organizations are going to G20 states. Insiders refer to “the G20ization of the World Bank.” This may be an indirect channel for making these organizations more responsive to G20 beliefs, preferences, and strategies.

However, the G20 is not a viable long-term solution to global coordination of economic and financial policies, particularly because of its legitimacy problem in the eyes of many of the 160-plus non-G20 states. Whether at the level of finance ministers or of heads of government, the G20 has yet to demonstrate that it can graduate from crisis committee to steering committee.

We can think of two new models. The first uses explicit criteria to guide the selection of members of a new Global Economic Council (GEC), of which at least four are relevant. One is weight in the world economy, measured by GDP, an indicator of effectiveness in turning decisions into action. A second is representation, which means that the group must cover a high proportion of the world’s population. A third is regional representation, to ensure that no region is left out. A fourth is intimacy: the grouping should be kept small enough to allow personal trust to develop among the members.55

With reference to the first two criteria, sixteen countries meet the condition of 2 percent or more of either world GDP or world population (using 2008 figures and GDP measured at purchasing power parities). Applying the 2 percent rule would exclude Argentina, Australia, Mexico, Saudi Arabia, South Africa, and Turkey of the current G20, and include Bangladesh, Nigeria, Pakistan, and Spain. However, the result is a bloc of rich countries and a bloc of poor, aid-dependent countries, and its business may be taken over by the latter’s attempts to wrestle more aid from the former. For this reason, the 2 percent of population criterion may have to be qualified by criteria relating to economic dynamism or international trade, or raised to 3 percent.

The third criterion could be met by each region selecting one or more states to represent it in the GEC, perhaps in a regional election, or else by each regional body, like the African Union, sending a representative. Dividing the world into five regions would make another five seats. The UN secretary-general and the president of the General Assembly would further enhance its legitimacy. They would bring the total to twenty-three seats (using the 2 percent criterion), consistent with the fourth criterion of lowish transaction costs.
The second—and by criteria of representational legitimacy, much better—model is a modified version of the existing Bretton Woods governance arrangement. A small number (roughly six) of the biggest states by GDP and population would represent themselves alone. All the rest (roughly 180) would be assembled in about twenty constituencies of at least six states each. Each constituency would regularly elect a state to represent it, with votes based on each country’s share of the constituency’s GDP and population. In this model, each constituency state on the GEC would represent roughly eight other states, in contrast with the first model, where each regional representative would represent roughly thirty-six other states.

Either of these models would allow a better balance between established and rising powers and a more robust way of changing the governing balance as the economic balance changes. The G7 states themselves are no more likely to push in this direction than turkeys are to vote for Christmas, but this should not stop others.

Reform of the World Bank

The World Bank’s future is assured because the BRICs and other middle-income countries have come out strongly in support, though best placed to borrow from other sources. Many are now more credit worthy than some Part I countries, such as the southern European Mediterranean states. However, some Part I governments—notably, the U.S. government—are holding back its growth, as seen in their reluctance to support a GCI. These governments have no strong interest in allowing the bank to grow much bigger and compete with their private financiers and consulting firms.56

A big fight is likely within the next few years over the president of the World Bank and the managing director of IMF, especially over whether the Americans can keep their monopoly on the bank presidency and the Europeans their monopoly of the Fund. The reform packages for both organizations call for open selection of the heads, unrestricted by nationality. But many commentators immediately shrink back: what if Lula da Silva, former president of Brazil, decides that he wishes to be president of the World Bank? How does the organization hard-wire in a merit test? Worse, what happens if the Chinese government wishes to appoint a senior official or politician as managing director of the IMF? What would happen to the organization’s transparency and accountability?57 In the case of the bank, should the positions of CEO and chair of the board, which have always been held by the president, be separated, so that a Lula da Silva could be chair with an effective manager as CEO?

The Europeans say that they and the Americans agree to give up the gentleman’s agreement—but that it is up to the United States to make the first move by giving up the bank. They worry about a U.S. strategy whereby it agrees to open up both jobs, then mobilizes an emerging market candidate as managing director of the IMF and deploys its veto to ensure his or her election, in return for which grateful emerging market states support an American as the next president of the World Bank—through “open” selection, of course.58
The allocation of votes—due to be revisited in 2015—is another looming fight. The idea of aiming for “parity” between Part I and Part II countries clearly does not make sense, not least because as more countries graduate from Part II, ever fewer countries would gain ever more voting rights—or else ways would be found to halt the graduation. As also for G20 membership, the Bank needs a shareholding formula based on transparent and legitimate principles, consistent with preserving the willingness of governments to fund and guarantee the organization and hence protect its AAA rating.

Another sensitive issue concerns the World Bank’s role in servicing the emerging development agenda of the G20. Some non-G20 states strenuously object to the World Bank making itself into the “secretariat” for a self-appointed, nonrepresentative body that includes no low-income countries (India now officially being classed as a middle-income country) and no premier aid donors except the United Kingdom. Any World Bank help to the G20 only ratifies the G20’s claims to be the global steering committee, they say. (In this spirit, they take a microscope to the bank’s budget in order to discover where the costs of servicing the G20 are being concealed.) Other voices take a more pragmatic view that since the G20 exists and wants to talk about development, the World Bank had better lead the way in telling it what to say.

But in the larger scheme of things, these are minor issues. What would be a bold vision for a new World Bank (bearing in mind Helmut Schmidt’s warning that people who have visions should see a doctor)? It might start from the point that there is an obvious unmet global need for a financing mechanism to provide below-commercial-rate long-term loans on a much bigger scale than at present: first, for projects that provide “global public goods,” where the investments are made in specific countries but the benefits spill over to many other countries (global warming investments are the obvious case in point); second, for other kinds of investments where the benefits are mostly captured within the country but where costs are high and benefits accrue over a much longer period, such as some kinds of infrastructural and industrial loans.

The sum of both demands means that developing countries laying down production and distribution capacity have a very high demand for many kinds of commodities, and a very high demand for food as incomes rise. They need below-market loans which—to be safe—mature in fifteen to twenty years. Until developing countries build a diversified production base and its associated infrastructure, they should be net importers of capital—provided that the capital imports are used to increase productive capacity rather than increase consumption and provided that the loans are long term. At present, with only a small supply of long-term loans, developing countries have been borrowing abroad on much shorter terms and at commercial rates—setting themselves up for whiplash reversal of capital flows and ensuing financial crises (as in the East Asian/Russian/Brazil crisis of 1997–98) and forcing them excessively into export production in order to repay the short-term loans. In this way, they help to produce global imbalances and associated financial fragility. This is the core argument for enabling one or more World Bank–like organizations to expand long-term lending to middle-income countries by ten times or more its present level.
A big increase in such loans from the World Bank means that the International Bank for Reconstruction and Development (IBRD) and IDA would probably have to be governed separately. The IBRD is the World Bank’s lending arm for middle-income countries, financed by sale of bonds plus repayments of previous IBRD loans. IDA is the lending arm for very-low-income countries, financed by grants plus repayments of previous IDA loans. The two arms are now governed by the same set of executive directors and share the same staff.

The IBRD might be thought of as a credit union or cooperative bank, as distinct from a shareholder bank. In a cooperative bank, shares and votes are allocated according to some combination of (1) one member, one vote; (2) financial contributions; and (3) borrowings. Since the Part Is now contribute very little paid-in capital and the bulk of the IBRD revenue comes from sale of IBRD bonds and borrowers’ repayments, the switch to the cooperative bank model would imply a big shift of votes away from the Part Is to the middle-income countries, which would raise their shareholding to much more than parity.

The Part I countries say they provide the guarantees on IBRD bonds, and hence enable the IBRD to raise revenue at a cheap rate. But now that many Part II governments have a high credit rating, Part II governments could equally guarantee IBRD bonds. And some of those with large foreign exchange reserves would be very happy to increase their capital subscriptions to the IBRD instead of using their reserves to finance the United States’ external deficits and overseas adventures.

The IBRD would then be run more by the middle-income countries, and could lend ten and more times its present rate to meet the surging demand for infrastructure loans, heavy and chemical industry loans, global warming loans, and the like (based on a dynamic-stages model of economic development distinct from the static comparative advantage and poverty-focused model that has dominated World Bank thinking for the past three decades). IDA might then be governed separately by a board that continued to be dominated by Part Is as long as they gave most of the grants. Needless to say, all Part Is, and also (at least publicly) most Part IIs, completely reject this vision.

In the next decade or so, we are likely to see repeated stalemates in global multilateral forums. Quests for global, top-down, everyone-in treaties may not be abandoned, but more progress is likely on more fragmentary regimes, composed of narrow agreements on specific issues, and on diffusion of policy norms for shifting market incentives in globally sustainable directions (such as a tax on carbon emissions coupled with tax credits for energy-efficient investments by households and firms, or prizes for carbon-saving energy innovations.)

Also, we can expect states to devote more effort to constructing regional economic governance regimes. Already several initiatives are underway in regions of the global South. The early Chiang Mai Initiative has more recently been joined by the South Summit (at heads-of-government level, held every five years since the first meeting in Havana in 2000), the Bank of the South (due to start lending in 2011), IBSA (annual meetings of the heads of government of India, Brazil, and South Africa), and UNASUR
(ministerial meetings among Latin American countries to coordinate on matters of finance, social policy, defense, and more). Brazil is taking a leading role in promoting South-South coordination; China is bringing African countries into common dialogues; but India is more ambivalent, being less willing than Brazil and China to court U.S. disapproval.

The growth of fragmentary global and regional regimes will—hopefully—induce efforts in global forums to make the rules more consistent with each other (on analogy with “middleware,” a type of software that enables different systems within an organization to communicate without the need for a single unified system). Much depends on what happens to China’s foreign policy as the economy grows and closes the never-before-seen gap between its high ranking in terms of aggregate size (second largest GDP in the world) and low ranking in terms of average income (about one hundredth when measured at gross national income per head using the World Bank’s Atlas method of adjusting market exchange rates) and as the polity slowly becomes more democratic. As these trends mature, China is likely—hopefully—to cease playing the double game of a superpower in some contexts and an impoverished developing country in others, and to assume more international responsibilities. And the West is likely to cease viewing China’s international behavior through the prism of skepticism and distrust. Eventually we can expect global institutional innovations to come from the South, too.

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Notes

4. The three organizations are discussed simply because they are contexts for interaction between established and emerging states, and because I have prior knowledge of them.

5. This is according to Volcker at a private lunch with the author at Princeton University, 1990 (when we were both teaching at the Woodrow Wilson School).


7. Personal communication, Ciao Koch-Weser.

8. Philip Stephens, “The West Must Offer Turkey a Proper Seat at the Table,” Financial Times, June 18, 2010. One indicator of the extent of Western normative dominance is the voting coincidence score, which measures the amount of support a state receives from other states in the General Assembly. In the late 1990s, the EU and the United States received around 70 percent support for their positions on human rights. By 2009–10, the score had fallen to only 40 percent to 42 percent. China and Russia increased their scores from around 40 percent and 60 percent in the late 1990s, respectively, to around 70 percent today. Richard Gowan and F. Brantner, The EU and Human Rights at the UN (London: European Council on Foreign Relations, 2010).


10. President Obama previewed his government’s new national security strategy in a speech at West Point military academy in May 2010. “Emerging powers in every region of the world,” he said, “are increasingly asserting themselves,” and the key to U.S. security is that the United States must deepen its cooperation with these “emerging centers of influence.” Ann-Marie Slaughter, State Department policy chief, said, “We are not going to be able to solve any of these problems alone [from nuclear arms control to financial reform]—we have to work with other nations.” Daniel Dombey and Gideon Rachman, “Mapped Out: As Washington Attempts to Engage More Closely with Emerging Powers, It Finds Their Ambitions Often Conflict with Its Own,” Financial Times, June 3, 2010, p. 7.


17. Argentina, Saudi Arabia, and South Africa would be excluded from a list of the top twenty countries whether by GDP (nominal), GDP (purchasing power parity [PPP]), GDP (60 percent market exchange rates, 40 percent PPP), or population.
19. Counting only the EU states included in the nineteen country members, the G20 covers 77 percent of world GDP and 62 percent of world population.
22. These statements are based on interviews with International Monetary Fund (IMF) and World Bank officials, summer 2010.
23. Note that the nineteen country members (plus Spain as “permanent guest”) send three persons to the top tables of the summits: the head of state, the finance minister, and the senior civil servant (sherpa). The countries representing regions send only one. Vestergaard, “The G20 and Beyond.”
24. The Koreans, chair for 2010, consulted more widely than their predecessors.
26. As one example, see David Gruen, Terry O’Brien, and Jeremy Lawson, eds., Globalisation, Living Standards and Inequality (Sydney: Reserve Bank of Australia and Australian Treasury, 2002). My observations on the G20 are based partly on participant observation at the Sydney meeting from which this book emerged and on personal reports over the years from other participants, including informants at the World Bank and IMF in the summer of 2010. My paper at the Sydney meeting was the only one to take a critical view of the strong proglobalization argument being championed by representatives of the developed countries and the World Bank. It elicited jeers from Australian representatives, such as “You are just kicking up statistical dust” and “Your approach leads to the paralysis of policy making.” Developing and transitional country (DTC) representatives sat mum, but several later said sotto voce that they were glad I had made the argument. When asked why they had not spoken at the session, they replied, in effect, that to disagree with the developed country consensus would be courting trouble.
28. Not all observers agree. Marc Plattner says, “By deciding to make the G-20 the key body for addressing the global financial crisis, the governments of the G-8 countries effectively consigned the smaller body to obsolescence. . . . Today the G-20 is clearly where the action is and where the real influence lies.” Plattner, “From the G-8 to the G-20,” Journal of Democracy 22, no. 1 (2011).


33. In the World Bank, the 187 governors delegate their governance role to the Development Committee, composed of finance or development ministers representing the countries and constituencies of countries that occupy the twenty-four seats on the board; and the latter delegate the day-to-day governance to the Board of Executive Directors, composed of civil service representatives of the same countries and constituencies, resident in Washington.

34. There were some mixed-constituency Part I states (in a constituency with developing countries) that did support the general capital increase (GCI). Austria was one.

35. Some Part I countries (United Kingdom, Germany) also opposed a GCI from a commitment to defend bilateral aid programs. As for Zoellick’s reluctance, some informants noted that he is a Bush government appointee (he and James Baker were the key figures who swung the Florida recount in favor of Bush), and is unlikely to be offered a second presidential term by the Obama government, unless failure to reappoint him might jeopardize the U.S. monopoly of the position. According to these informants, he has signaled that he may see his future to lie outside of multilateral development, in circles where support for public-sector financial organizations that compete with the private sector may not be welcome.


37. The work on the reform package built on ongoing work by a special board subcommittee. After the inglorious end of the Wolfowitz presidency in 2007, the board established an ad hoc committee to conduct an investigation of the Wolfowitz affair, which revealed flaws in management of the board and the bank going far beyond the affair. So the board established a standing committee to propose changes in the nuts and bolts of board operations, board–staff relations, and board–president relations. But until the global financial crisis and the need for a CGI, nobody was paying much attention to its work.

38. This discussion refers to voting shares in the International Bank for Reconstruction and Development (IBRD), the near-commercial lending arm of the bank, as distinct from the International Development Association (IDA), the soft-loan arm.

39. To make the voice shift within months was quick by the standards of Japan’s rise from fifth biggest shareholder to second biggest. It took a dedicated division in Japan’s Ministry of Finance several years of strategizing, in the first half of the 1980s, even though only an adjustment of shares within the G7. Until the current fallout between the United States and Europe, the whole of the G7 has tended to unite against dilution of its aggregate share. Robert Wade, “Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective,” *New Left Review* 217 (1996): 3-36.

41. Personal communication from an individual who requested anonymity.
43. In the IDA soft-loan lending arm, the high-income countries, postreform, have 61.18 percent; in the International Finance Corporation (IFC), 66.24 percent. The low-income countries have 4.46 percent in the IBRD, 11.31 percent in the IDA, and 3.09 percent in the IFC. Bretton Woods Project, “Bank Voting Remains Unbalanced,” Update 70 (April 16, 2010); and “IFI Governance Reform Freezing Over?” Update 71 (June 17, 2010), http://www.brettonwoodsproject.org/gov71.
44. This statement holds when the earlier increase in “basic votes” is included.
45. Such “ad hocery” is hardly new. In a conference of state representatives in the run-up to the Bretton Woods conference in 1944, the young Raymond Mikesell was given the task of working out a formula for allocating IMF quotas on the basis of several variables whose general importance had been agreed at the conference. As he started work with his slide rule, he was informed confidentially that the U.S. president and secretary of state had agreed on the appropriate share to go to each of the “big four” wartime allies, and he was left to devise a “technical” formula to produce that predetermined result. Raymond Mikesell, The Bretton Woods Debates: A Memoir, Essays in International Finance Series, no. 192 (Princeton, NJ: Princeton University, 1994).
47. The five largest gains in quota shares go to China (2.4 percentage points), Brazil (0.53), Korea (0.39), Turkey (0.37), and Mexico (0.35). The five largest decreases in quota shares go to Saudi Arabia (–0.83), Belgium (–0.59), Germany (–0.52), Canada (–0.36), and Venezuela (–0.33). The rank order of shareholders in the IMF is now (1) United States, (2) Japan, (3) China, (4) Germany, (5) France, (6) United Kingdom, (7) Italy, (8) India, (9) Russia, (10) Brazil. Previously the rank order was (1) United States, (2) Japan, (3) Germany, (4) France, (5) United Kingdom, (6) China, (7) Italy, (8) Saudi Arabia, (9) Canada, (10) Russia. With the exit from the top ten of Saudi Arabia and Canada and the entry of India and Brazil, the DTCs now have four states in the top ten, as compared with two previously (on the assumption that Saudi Arabia should not be classed as a DTC). Note that the Fund refers to “EMDCs” (emerging markets and developing countries) rather than the Bank’s “DTCs.”
48. “Alleged” overrepresentation because the formula used to calculate it is highly contested, and overrepresentation vanishes with small variations.


54. Wade, “From Global Imbalances.”


56. This is best treated as a hypothesis. The United States and other Part I countries that opposed a GCI for the Bank nevertheless approved large GCIs for regional development banks (e.g., a 200 percent increase for the Asian and African development banks).

57. The World Bank’s new information policy makes a presumption that documents should be available in the public domain after ten years. But the Board of Executive Directors insists that its documents be treated under much tighter restriction. The board decides on requests to see transcripts of board meetings more than ten years old on a case-by-case basis. If any one state objects, no grounds for refusal need be given, and other states are unlikely to argue in favor of release. There is an appeal procedure—but the rules say that no board decision can ever be changed as a result of an appeal. The Chinese government has blocked requests to see transcripts relating to China, without challenge. An information policy so circumscribed by political convenience hardly deserves the name.

58. The issue is complicated by rumors that Zoellick is playing a double game: keeping up pressure on Bank member countries for a second term at the World Bank under the banner of “the last American president” while also lobbying the Republican Party to be appointed U.S. treasury secretary if a Republican wins the White House in 2012.


62. A governance separation of IBRD and IDA would undoubtedly have costs, including diseconomies of scale, coordination costs, and adverse incentives, as newly disempowered Part I countries find bilateral aid more to their advantage. My thanks for Guenther Schoenleitner of the Austrian finance ministry for useful comments.

Bio
